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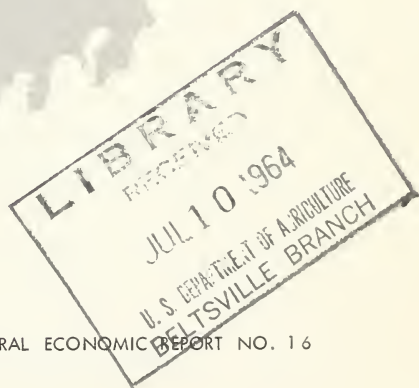
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TRENDS AND DEVELOPMENTS IN JAPAN'S ECONOMY

AFFECTING THE MARKET FOR U.S. FARM PRODUCTS

1950-62



FOREIGN AGRICULTURAL ECONOMIC REPORT NO. 16

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SUMMARY

Japan is one of the leading world markets for farm products. Its agricultural imports are approaching \$2 billion annually and the prospects are bright for continued increases. The value of farm imports climbed from \$1,304 million in 1952 to a high of \$1,983 million in 1961. The value declined only slightly in 1962, due largely to reduced purchases of raw cotton.

Japan's agricultural imports include many products the United States has in abundance and for which cash markets are needed. Japan's growing requirements and plentiful U. S. supplies make for conditions that promote mutually advantageous trade. Economic factors and the friendly relations between the two countries have combined to make Japan the leading market for U. S. farm products and the United States the leading supplier of Japan's agricultural needs.

Sales of U. S. farm products to Japan averaged about \$418 million annually in 1950-62, reaching a peak of \$554 million in 1961. They dropped to \$481 million in 1962 due primarily to reduced cotton purchases. Japan has been mostly a dollar market following the reconstruction period after the end of World War II.

Japan is rapidly emerging as a modern industrial and trading nation. Rapid growth and progress--economically, socially, and politically--have been characteristic of Japan for more than a decade. On the basis of comparable statistical data, its economic growth rate has been the highest in the world; the country has rapidly and effectively adapted western technology and has strengthened its international competitive position by adjusting policies to fit trends in the world economy.

Its policy adjustments have led to membership in and cooperation with such international organizations as the General Agreement on Tariff and Trade and the International Monetary Fund. Membership in the Organization for Economic Cooperation and Development is pending.

One of the important changes with favorable implications for suppliers of farm products has been the continuous step-by-step liberalization of import controls. This liberalization is

reportedly 92 percent complete, on the basis of the formula used. Also, Japan has generally endorsed the proposal of the United States for across-the-board tariff reductions. If implemented, these measures will open Japanese markets wider to foreign sellers. Continued liberalization and tariff reductions are contingent, of course, on the assumption that Japanese exports will be accorded similar treatment in foreign markets.

The balance-of-payments problem is periodically troublesome for Japan. It has been the leading cause of three slowdowns in Japan's economy in the last decade. But remedial measures, mostly monetary, have successfully curbed the imbalances. Current holdings in foreign exchange (about \$2 billion at the end of 1963) put Japan in a relatively strong balance-of-payments position.

Japan produces only about 80 percent of its food requirements even though most of its limited land area is devoted to crop production. There is very little opportunity to expand the cultivated area. Domestic production provides only a minor part of the total fibers needed to supply Japan's important textile industry.

Japan, like the United Kingdom, has an economy based on importing, processing, and exporting. Expanding its export trade is a major economic and diplomatic objective--the country must keep export earnings strong to pay for its vital imports.

Export expansion efforts have been highly successful in the last decade. The United States has been instrumental in this success by providing markets and much needed foreign exchange through expenditures by and for U. S. armed forces in Japan and purchases of Japanese goods and services for use in other countries under U. S. aid programs.

The Japanese market for farm products is changing rapidly. With growing affluence, the Japanese consumer is altering his consumption pattern to higher quality and more expensive foods. Westernization and urbanization are influential forces. Demand is slackening for starchy foods such as barley and is strengthening for such foods as red meats, fruits, vegetables, and dairy products.

For the first several years of the postwar period, U. S. farm exports to Japan consisted primarily of rice, barley, wheat, corn, soybeans, cotton, tallow, hides and skins, and leaf tobacco. These products in the mid-1950's accounted for 95 percent of such exports. The percentage has since dropped, but these are still the major exports, except for rice and barley. No U. S. rice or barley was shipped to Japan in 1960-62. Japan is now practically self-sufficient in rice production. Barley output has declined with decreased demand. High Japanese support prices make uncertain the potential usefulness of barley to the expanding feed industry.

Demand for wheat remains strong but has shifted from soft wheats toward hard wheats preferred by Japan's breadmaking industry. Canada has become the leading supplier of hard wheats.

The booming demand for corn in Japan is associated with the growing feed manufacturing industry. The United States is the leading corn supplier, but there are several other countries bidding for larger shares of the market.

The large and growing soybean market is virtually dominated by the United States, with Mainland China the major source of competition. Demand is expected to increase rapidly and benefit U. S. suppliers. Japan might buy larger amounts of beans from China if they can be supplied.

Cotton is the leading U. S. export to Japan. Many other producers, especially Mexico, are trying to expand cotton sales to Japan. The U. S. share of the market dropped sharply in 1962 but is expected to rebound.

Tallow use has increased over the years, with the United States the primary supplier. The soapmaking industry has been the principal user. With the growing number of washing machines and the expanding use of detergents, however, future demand for tallow is somewhat uncertain. Other uses for tallow may be developed to offset its possible decline in soapmaking.

Japanese demand for hides and skins has been increasing; the United States is the leading supplier. Australia provides most of the competition in supplying the market.

Demand for leaf tobacco has trended up sharply for blending with domestic leaf in producing high quality cigarettes. Much leaf tobacco has come from the United States, but competition is increasing.

The Japanese market in recent years has shown potential for increased U. S. exports of nonfat dry milk, safflower seed, raisins, grain sorghum, and several miscellaneous items.

The general outlook is for rapid expansion in Japanese imports of farm products. To expand its imports, however, Japan must be permitted to sell in foreign markets. The Japanese market is highly competitive; factors in successful selling to the market include quality, price, reliability of the supplier, prompt delivery, and sales promotion--which is likely to be increased greatly.

TRENDS AND DEVELOPMENTS IN JAPAN'S
ECONOMY AFFECTING THE MARKET
FOR U. S. FARM PRODUCTS, 1950-62

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INTRODUCTION

Measured by the size of population, Japan is the seventh largest country in the world. Some 95 million people, equal to half the population of the United States, are crowded into an area smaller than the State of California. Population density is very high--660 people per square mile. Based on cultivated area, the population is more than 4,600 persons per square mile, one of the highest densities in the world.

There are about 6 million farm families in Japan and the average size farm is less than 1 hectare (2.47 acres). One-third of the people live on farms. Nine-tenths of the agricultural land is devoted to food crops. By use of multiple cropping, irrigation, heavy applications of fertilizers, intensive cultivation, improved seeds and other modern practices, the country achieves high yields per acre, but is hard pressed to maintain about 80 percent self-sufficiency in food. Large imports of wheat, corn, sugar, soybeans, and other food items are necessary. The amounts needed are trending upward.

With first priority on food production, little land is left for growing industrial crops. Hence, the large and important textile industry depends upon imports for its raw cotton and wool. Also necessary are large imports of rubber, hides and skins, and tallow for use in other industries.

The meagerness of agricultural resources, a growing population, plus the ability to buy have made Japan one of the largest importers of farm products in the world. In recent years, the United States has supplied about 30 percent of the important Japanese farm market. Thus, the U. S. farmer has a large stake in this strong dollar market.

Japan's increasing ability to buy is founded upon a large industrial plant and an abundant supply of labor with a high degree of managerial and technical skill and a relatively adequate supply of investment capital. These assets are converted into exports by importing raw materials, processing them, and exporting. Exports, mostly manufactured products, provide the necessary foreign exchange to pay for imports. This brings together in Japan the two basic essentials for making a cash farm market--the need plus the ability to pay.

An economy based on trade has worked well for Japan. The people are generally better fed and better dressed than other Far Eastern people, but there is still a long way to go. The desire to improve further and to match Western standards has not been dulled. The drive to improve the standard of living and to play a constructive role in world affairs is the chief national aim. Current plans call for doubling national income in the 1960's. An excellent start has already been made.

Manifestly, as an industrial and trading nation, Japan has great possibilities provided it can compete successfully in buying food and raw materials and in selling manufactured items. Success in world trade and an expanding economy, rising consumer incomes, a growing population, and limited farm resources assure that Japan will want to import increasing quantities of food and fiber in the years ahead.

Less well assured in the future is which country will lead in supplying Japan's needs for various commodities. The Japanese are inclined to buy from the United States as their most dependable source of supply and Japan's best export market. However, Japan is now buying on a global basis; many countries are increasing their export capabilities and are bidding for a larger share of the Japanese market. Some inroads have been made and the United States is having difficulty holding parts of the Japanese market.

With competition intense and growing, hard selling and promotion will be necessary to keep U. S. farm products moving into Japan in increasing quantities. U. S. products must also be fitted to Japanese requirements and must be competitive in price and quality.

Trade promotion programs and policies have to be based on knowledge of the demand structure, which is rapidly changing. This study discusses some developments that may bring about changes in the demand structure and shows trends in Japan's total farm trade and trade with the United States over the last 13 years. These developments and trends are discussed briefly in the broad economic framework of the general economy of Japan and in relation to world conditions affecting foreign trade. Special emphasis is given to trends and developments affecting imports of agricultural products produced in the United States for which Japan is a major market. Much of the material and analysis for the report was supplied by the Office of the Agricultural Attache, U. S. Embassy, Tokyo, Japan.

GENERAL ASPECTS OF THE JAPANESE ECONOMY

Background

Rapid economic and social progress without serious inflation is a prime objective of most countries of the world. In the last decade, Japan has demonstrated impressively that even a country not favorably endowed with natural resources can achieve this elusive goal without having to regiment and exploit its people. How has Japan, a country with so little land, so few mineral resources, but with so many people, been able to develop and sustain the fastest growing economy of any country for which comparable statistical data are available?

This report on trends and developments in foreign trade in farm products does not go into this question in detail. However, trade in farm products and the viability of the economy of Japan are so intermeshed and interdependent that it is difficult to talk about trade without relating it to some of the other broad sectors of the economy and to Japan's role in an international context, at least in a general way. Basic to understanding the Japanese experience is knowledge of the vital role of two-way trade and interchange of technology in promoting Japan's growth and strength. Some of the following economic facts lay the groundwork for such knowledge.

Japan is a chain of rugged mountainous islands which roughly parallel the northeastern coast of the Asian Mainland.

The four main islands extend for 1,200 miles and are located between the 31st and 46th parallels of north latitude. The islands basically consist of mountainous centers fringed by coastal alluvial plains. The long coastlines with several promontories and indentations afford many fine harbors suitable for loading and unloading oceangoing vessels.

Japan's temperature and rainfall are comparable to the U. S. Eastern Seaboard from Maine to Florida, permitting the production of a wide range of farm products. Rainfall is ample, ranging from 40 to 80 inches, and is heaviest in the summer months. Floods and typhoons occur frequently, however, and resulting crop damage often runs into several million dollars. For example, damage to crops from excessive rainfall in the spring and early summer months of 1963 is estimated at about \$270 million.

Before World War II, Japan's territory totaled around 800,000 square miles, including Manchuria and some other parts of Mainland China that Japan controlled. Korea was also controlled by Japan. Japan's territory included, in addition, Taiwan, the southern half of Sakhalin, and the Kurils and some other islands. The country is now reduced to only four main islands--Hokkaido, Honshu, Kyushu, and Shikoku--and many small islands. None of the small islands has great economic importance. Altogether, the total area is less than 150,000 square miles, slightly less than the State of California.

About four-fifths of Japan is hilly or mountainous. Of the country's 91 million acres, only 13 million or about 14 percent of the land area is considered agricultural land. Arable land amounts to less than one-fifth of an acre per capita. In comparison, there are more than 2 acres per capita in the United States. About 6 million families farm the 13 million acres. The average farm has slightly more than 2 acres.

The land scarcity problem is further intensified by the fact that Japan's soils, though of volcanic origin, are inherently infertile and require large applications of organic and chemical fertilizers. Only through skillful management by Japanese farmers using modern technology have farm yields reached the current high levels. Efforts are being made to expand the agricultural

land area but more farmland is being taken for building sites, roads, and other uses than is being brought under cultivation through reclamation.

The outlook is more favorable for Japan on the population side of the man-land ratio. The rate of population increase has been slowed to less than 1 percent annually and it may be reduced even further. In contrast, the population of Japan following the end of World War II shot up from 72.2 million in 1945 to 83.2 million in 1950. This increase was due partly to repatriation of 6.5 million people from overseas areas and partly to the natural increase following the war. The current low rate of increase is partly attributable to encouragement by the Japanese Government of measures to limit births.

Economic Growth

The current Japanese economic boom is not entirely postwar. It has its roots in many centuries of Japanese history. Even though Japan long followed a policy of self-imposed isolation from the rest of the world, the more enlightened leaders were alert to opportunities and reached out to learn about and emulate more advanced countries. This trait of Japanese leadership has been a major factor in Japan's economic success.

Improvements have not just been set down on paper; plans have been resolutely implemented by a strong Government in cooperation with a resourceful business community under a private enterprise system.

From the seventh to the ninth century, the Japanese made a conscious effort to improve their way of life by studying and adopting selectively the then-advanced Chinese civilization and integrating various aspects of Chinese culture with that of Japan. This was Japan's first major contact with a foreign country and it profoundly affected the Japanese people. In fact, much of the Japanese culture of today evolved from that ancient blending.

It was well into the second half of the 19th century before Japan launched a drive toward modernization founded on western learning and technology. This process is generally believed to date from about 1868, or about the time of the Meiji Restoration;

it marked the decline of feudalism and the pronounced start of Japan's emergence as an industrialized nation. According to one theory, Japan's sudden interest in western technology was based on its concern about defense and about becoming a colony of one of the powerful European nations then expanding their empires in Asia.

Japan engaged in several wars in the years that followed, culminating in World War II, and defeat. If restoration of the prewar 1934-36 level of production is used as a measurement, the economy of Japan is considered to have roughly achieved that level by 1951-52. The average annual growth rate of the Japanese economy was 4.6 percent in 1925-39 (6). 1/ Studies have shown that the rate of growth in 1950-59 averaged a little over 9 percent annually, and the 1955-60 rate exceeded 10 percent. The rate was about 15 percent in fiscal year 1961, beginning April 1 of that year, but declined to about 5.7 percent in calendar year 1962. 2/

These are high rates of growth. The combination of factors that have brought them about are, of course, of interest to the Japanese Government for future guidance and to other countries of the world that would like to emulate Japan's postwar achievements; namely, rapid economic expansion under a democratic form of government.

The recovery following World War II was spectacular partly because of the difficulties faced and overcome. Japan had lost much of its prewar market and sources of raw materials. Its economy was devastated and there were the millions of overseas Japanese to be repatriated to the home islands. There were several leading factors of recovery in the postwar years: A strong consumer demand for food, clothing, productive equipment, and many other things in short supply because of the war. Land reform was successfully implemented. U. S. aid totaling more than \$2 billion was put into Japan as an aid to recovery.

1/ Underscored figures in parentheses refer to Selected References, p. 78.

2/ Japan's fiscal year begins April 1 and extends through March 31 of the next calendar year.

Most important, and without which the other forces would not have been so effective, Japan emerged from the war with its strongest economic asset intact and virtually undamaged. This consisted of a bountiful labor force with a high level of skill, education, and useful technology. With capital and access to new and additional technology, made available chiefly by the United States, such a society had great resiliency and ability to recover, as demonstrated not only in Japan but also in the countries of Western Europe.

The recovery process faltered around the beginning of the 1950's. But it received a strong boost from the boom in demand brought on by the Korean conflict. Large orders by the U. S. Government for military supplies provided the necessary stimulus.

Following the recovery and the end of the Korean hostilities, Japan faced the problem of expanding its economy to new heights, relying primarily on world markets for civilian goods with a greatly reduced demand for war materials and supplies. This has been achieved, demonstrating again the capacities and resourcefulness of the Japanese people to meet new situations and adjust to changing world conditions. The trends in Japan's industrial, agricultural, and wholesale price indexes are shown in figure 1, together with the rising gross national product, shown in billions of U. S. dollars.

This picture of progress, characterized by explosive growth in the industrial sector, steady expansion in agriculture, relatively stable wholesale prices, and the world's fastest growth in gross national product, cloaks somewhat the cyclic nature of the economy (table 1). The most recent adjustment occurred in 1962.

Economic Growth Targets

Late in 1960, the Japanese Cabinet approved a plan that called for a doubling of the national income by 1970. The plan is basically a blend of possibilities and expectations. The targets set would achieve this doubling by raising national income from \$36 billion to \$72 billion, in terms of 1958 prices. Gross national product would need to increase 7.8 percent annually. Table 2 shows the growth targets and totals for the more important individual sectors of the economy.

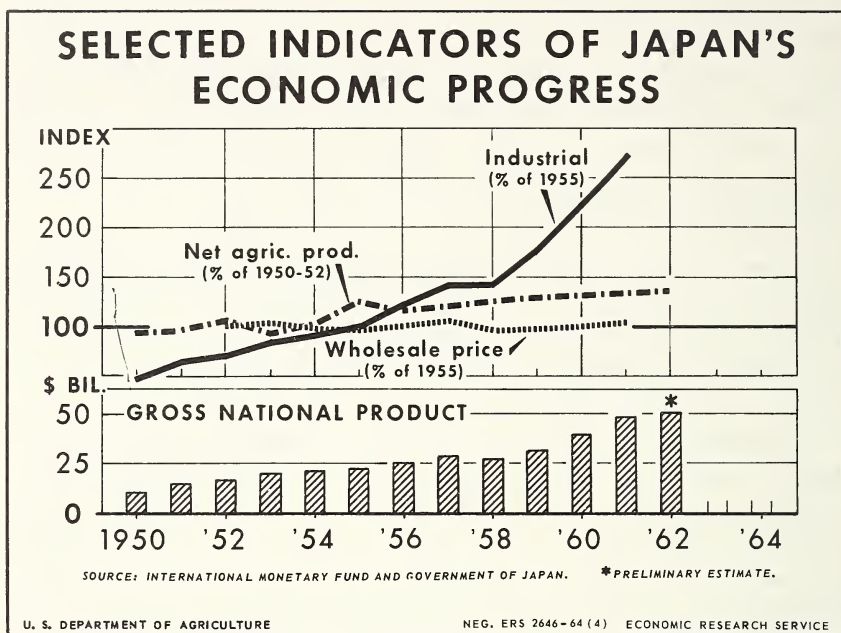


Figure 1

If the plan is successful, per capita annual income will go up from \$297 in the base period to \$706 and will then compare favorably with what per capita incomes in Western Europe were in 1961. Annual trade volumes of \$9.3 billion in exports and \$9.9 billion in imports will be required to sustain a \$72 billion economy. The plan envisages an annual rate of increase of 9.3 percent in the value of imports and 10 percent in the value of exports. Japanese authorities who drew up the plan have pointed out that trade will decide whether the plan can succeed.

Can Japan attain these goals? In view of the gains made in the 1950's and during the first years of the Income-Doubling Plan, the targets do not appear too optimistic. The actual performance of the Japanese economy in recent years has generally outdistanced predictions.

Basic factors favoring a continued high rate of growth are much the same as those that enabled Japan to advance previously--a skilled and industrious labor force, able and adventurous

Table 1.--Japan: Economic growth and cycles in the Japanese economy, fiscal years 1951-61 and calendar year 1962

Fiscal year	Phase of the business cycle	Rate of economic growth <u>1/</u>	
		Real	Nominal
		Percent	Percent
1951.....	Advance in recovery	13.6	37.9
1952.....	Advance in prosperity	10.6	12.4
1953.....	Advance in overstrain	7.8	15.6
1954.....	Recession in adjustment (including recovery)	3.3	5.4
1955.....	Advance in recovery	10.3	10.3
1956.....	Advance in prosperity	9.1	13.3
1957.....	Advance in overstrain (Including adjustment)	7.2	8.5
1958.....	Recession in adjustment	3.7	2.9
1959.....	Advance in recovery	17.8	21.0
1960.....	Advance in prosperity	13.2	16.6
1961.....	Advance in overstrain	15.0	20.0
1962 <u>2/</u> ..	Recession in adjustment	5.7	9.1

1/ The growth rate in real figures indicates the rate of increase in the gross national product based on prices in the fiscal year 1955/56, and compared with the preceding fiscal year.

2/ Calendar year estimate.

Source: (14).

Table 2.--Japan: Economic growth targets for fiscal year 1970

Indicator	Unit	Actual : average : for fiscal years : 1956-58 :	Targets for fiscal year 1970	
			Total	Annual increase
				Percent
Population.....	Mil.	91	102	0.9
Gross national product.....	Mil. dol.	27,100	72,200	7.8
Per capita.....	Dol.	297	706	6.9
Mining and manufacturing production.....	Index	100	432	11.0
Agricultural, forestry and fishery production.	Index	100	144	2.8
Imports	Mil. dol.	3,126	9,891	9.3
Foodstuffs.....	Mil. dol.	539	804	3.1
Raw materials	Mil. dol.	1,439	3,789	7.7
Mineral fuel	Mil. dol.	476	1,863	11.1
Semifinished products	Mil. dol.	276	1,093	11.2
Finished products	Mil. dol.	393	2,330	14.7
Machinery.....	Mil. dol.	304	1,735	14.3
Other	Mil. dol.	89	595	15.7
Other	Mil. dol.	4	12	8.8
Exports	Mil. dol.	2,701	9,320	10.0
Heavy and chemical products.....	Mil. dol.	2,402	8,859	10.5
Machinery and transportation equipment.....	Mil. dol.	603	3,450	14.3
Metals and metal products	Mil. dol.	292	1,040	10.2
Medical and chemical products.....	Mil. dol.	120	493	11.5
Light industrial products.....	Mil. dol.	1,387	3,857	8.2
Textiles and apparel	Mil. dol.	879	1,723	5.3
Food, beverages, and tobacco	Mil. dol.	206	547	7.8
Light machinery	Mil. dol.	56	400	16.3
Miscellaneous..	Mil. dol.	246	1,206	13.0
Other	Mil. dol.	299	461	3.4

Source: (8).

management, smooth functioning economic organizations, plus the willingness to save and invest. Japan has a high rate of savings and the highest rate of investment in the world. Japan is also rapidly acquiring modern plants and technology. In this respect, the country is overcoming a lag caused by the war. Japanese industry is now geared to produce many items for which world demand is considered strong and expanding. The domestic market is also growing rapidly. The production base has been widened and diversified. The economy is moving generally from a light toward a heavy industry orientation.

Dependency on Trade

The economic health and growth of Japan is overwhelmingly dependent on the expansion of two-way trade. That Japan's limited natural resources make expanding trade an essential condition to continuing growth can be quickly observed in table 3. Japan not only has to import much or all of its needs of such farm items as cotton, wool, sugar, rubber, wheat, soybeans, and hides, but also of nonagricultural raw materials and supplies including petroleum, iron ore, iron scrap, coal, and phosphate rock. Many other items might be added to both of these lists.

Manifestly, to pay for these imports, Japan must have access to world markets and be permitted to sell under principles based on free-trade concepts. Otherwise, Japan will have to curtail imports to conserve foreign exchange. Export trade is by far its leading source of foreign exchange. It is also something over which no one country can exercise determining control.

BALANCE OF PAYMENTS

Postwar Developments

The recurring problem of keeping a satisfactory working balance in the foreign account has long troubled Japan. Imbalances occurred on several occasions before World War II. Japan faced a serious balance-of-payments situation immediately after the war. During the occupation, the United States eased the problems by supplying large amounts of economic aid.

Since 1952 and recovery of its economy from the war, Japan has experienced three balance-of-payments crises, all occurring

Table 3.--Japan: Rate of dependence on importation of principal agricultural and industrial items, 1950-60 1/

Commodity	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
	6.5	8.1	9.0	11.6	13.6	9.1	6.5	2.9	4.0	2.2	1.3
Rice	23.7	45.5	46.8	39.1	37.7	33.4	44.9	43.1	38.7	28.2	0.0
Barley	54.0	52.6	52.0	55.1	59.0	60.9	62.3	62.7	64.0	63.0	63.6
Wheat	31.3	39.5	24.3	51.1	54.7	61.4	61.2	63.7	69.8	70.1	77.5
Soybeans	94.9	95.5	95.9	96.3	96.1	95.5	95.2	93.1	91.0	89.7	90.4
Sugar	2.1	4.3	7.2	9.6	7.8	6.3	7.6	11.1	8.6	9.5	14.0
Coal	81.0	88.5	92.9	94.5	95.7	96.0	97.0	97.6	97.5	97.9	98.1
Crude petroleum ..	63.4	77.2	81.6	79.0	81.5	84.2	87.8	89.1	86.6	89.8	92.1
Iron ore	99.8	100.0	100.0	100.0	100.0	100.0	100.0	99.9	99.9	100.0	100.0
Phosphate rock	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Bauxite.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Iron scrap	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cotton	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Wool	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Hides	83.4	74.4	68.1	49.3	46.6	48.5	48.2	45.8	49.9	51.3	53.7
Crude rubber	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Pulp	7.7	9.1	4.8	7.9	7.4	4.9	6.8	6.1	2.4	2.9	4.0
Salt	60.1	80.3	76.5	75.3	79.4	77.3	77.4	70.6	61.1	62.2	73.9

1/ Dependence rate = imports ÷ (production + imports).

Source: (3).

during a decade of unprecedented economic growth. These took place in 1953, 1957, and in 1961. In each instance, the difficulties developed at the peak of a boom. However, for the period 1952-62, Japan's yearend position improved in terms of gold and foreign exchange holdings (table 4). The situation has been unstable, however, and serious fluctuations have required extensive corrective measures (5). These measures have had a major impact on the Japanese economy and economic policies.

Table 4.--Japan: Gold and foreign exchange holdings at end of years, 1952-62

Year	Million U. S. dollars	Year	Million U. S. dollars
1952.....	979	1958.....	861
1953.....	823	1959.....	1,322
1954.....	738	1960.....	1,824
1955.....	769	1961.....	1,486
1956.....	941	1962.....	1,841
1957.....	524		

Source: (9).

Recent and Current Situation

In mid-1961, the Japanese authorities noted signs of difficulties ahead for the country's external account. Exchange holdings amounted to \$1,824 million at the end of 1960 and went up during the first few months of 1961 to a postwar peak of \$2,035 million in April. By the end of 1961, however, Japan was faced with a large current account deficit for the year. Foreign exchange holdings of more than \$2 billion had dropped to less than \$1.5 billion. As in 1953 and in 1957, the authorities moved to put restraints on forces believed to be responsible for the developing imbalances. By the end of 1962, foreign exchange reserves had risen to \$1,841 million from \$1,486 million a year earlier.

Causes and Corrective Measures

Japan's balance-of-payments problems have their origin in the country's economic success, that is, excessive economic

growth, which averaged around 15 percent in real terms in 1959-61. Expanded demand for capital equipment and raw material, combined with slack demand for some export items, created the stresses. The problem was to dampen what the Japanese often refer to as an "overheated economy". However, the restraints were not intended to be severe enough to stop economic growth and stagnate the economy.

Monetary policy has been the key weapon Japan has used successfully to slow the growth rate and reduce downward pressures on the external account. The "tight money" policy adopted in 1961 was intended to make money scarce and more expensive to borrow.

Interest rates in Japan are normally high compared with those in other developed countries. Also, under the Japanese banking system, commercial banks are required to borrow money from the Bank of Japan at penalty rates if they exceed their limits on borrowing at the basic discount rate. In the 1961-62 crisis, the basic discount rate was pushed to 7.3 percent, one of the highest rates in the world. By March 20, 1963, the rate had been reduced to 6.2 percent. Such interest rates are directed most pointedly at slowing investment spending; once the desired effect has been achieved, the rate is lowered to stimulate investment and other spending.

Some other benefits can be expected from high interest rates. High costs of credit may discourage inventory holding and put some downward pressure on wholesale prices through distress selling. To the extent this happens, reduced prices make Japanese goods more attractive in world markets and increase export earnings. High interest rates also attract short-term capital from foreign money markets and encourage domestic savings.

Other steps that have been taken to improve the balance of payments include:

- (1) Increasing efforts to expand exports.
- (2) Reducing the waiting period on repatriation of foreign investments from 2 years to 6 months and finally removing this restriction altogether to encourage foreign capital investments.

- (3) Requiring importers of goods not considered essential to the economy to make a larger deposit when applying for foreign exchange.
- (4) Inviting the cooperation of the business community to assist in slowing down the boom to ease foreign exchange difficulties and avoid possible domestic inflationary pressures.
- (5) Borrowing from foreign sources.

Late in 1961, Japan borrowed \$200 million from U. S. banks on a short-term basis. In January 1962, a loan of \$125 million was obtained to purchase agricultural products. These loans are now being paid back. A standby credit of \$305 million was set aside by the International Monetary Fund, but it was not used. In addition, several bond issues were floated in the United States and Europe to obtain capital. These are indicative of Japan's strong credit rating and the sources of help available if needed. Japan is attempting to improve its balance-of-payments position by increasing the inflow of long-term capital. The United States is a major supplier.

In the fourth quarter of 1962, the Japanese Government signaled the end of the financial retrenchment and began taking steps to ease the "tight money" policy. The Bank of Japan lowered the discount rate twice and credit became more readily available, thus making importing less difficult and enabling industrial concerns to replenish depleted inventories.

For the third time in 10 years, Japan appears to have successfully corrected a threatening balance-of-payments problem through monetary restraints and without stopping economic growth. Imports were cut back. The excessive rate of growth in real terms was reduced from 15 percent in 1961 to an estimated 5.7 percent in 1962. The latter figure, nevertheless, certainly is not representative of a stagnated economy. Now, Japan expects an increase in the rate of growth to the planned 7.8 percent annual rate. Extensive crop losses in 1963, requiring additional food imports, are putting pressures on the foreign exchange position. Also contributing is the increase in world sugar prices.

It is tempting, but perhaps misleading, to conclude that Japan has found a relatively painless way to solve its balance-of-payments problem. Commendable as the remedial measures are,

however, there are some special circumstances that have helped Japan achieve high rates of growth and smooth recoveries. Some of these conditions may be of passing importance and may not always be present.

First, there is the role of what is termed "special dollar receipts, or government transactions with U. S. forces." These funds represent expenditures of U. S. military and other personnel in Japan, military procurements for U. S. forces in the area, and U. S. purchases of Japanese goods and services for use in other countries under U. S. aid programs. Dollar earnings from these sources in 1956-60 averaged more than \$500 million annually but amounted to only \$377 million in 1962. These earnings, now declining, have undoubtedly helped Japan meet dollar payments, build exchange reserves, and make expenditures in other countries.

Japan's adjustment in 1962 was further aided by the fact that 1962 was a very good year for Japanese exports. Total exports increased 16 percent from a year earlier. Exports to the United States alone increased 31 percent. Imports were held down, declining 3 percent from 1961. This gave the country almost \$400 million in receipts over expenditures in the merchandise account (table 5).

Another factor in Japan's favor was a decline in the 1950's in world prices of many primary goods of which Japan is a large importer. Japan was able to buy at reduced prices, saving millions of dollars. At the same time, world demand for many of Japan's exports remained strong as world trade continued upward.

These factors of international trade have been favorable; had they been otherwise, there might have been greater trouble. Also, Japan in the postwar period has been spared the expense of a heavy defense burden through an alliance with the United States. These considerations point up the fact that Japan has a vital stake in keeping world trade free and strong and in remaining allied with the free world.

Meanwhile, the balance-of-payments threat will likely remain a shadow on the economic horizon. The Japanese economy is sensitive to changing events. A sharp increase in imports, inflated domestic prices, a decreased inflow of foreign investment capital,

Table 5.--Japan: Balance of payments, 1962 1/

Item	Receipts	Payments	Balance
	Mil. dol.	Mil. dol.	Mil. dol.
Current transactions:			
1. Merchandise exports and imports, f.o.b....	4,860	4,463	397
2. Government purchase of domestic gold.....	1	---	1
3. Services	700	1,441	-741
Foreign travel	48	48	0
Transportation.....	386	775	-389
Insurance.....	50	74	- 24
Investment income....	106	184	- 78
Government trans- actions.....	14	24	- 10
Miscellaneous.....	96	336	-240
4. Government trans- action with U.S. forces	377	---	377
5. Donations.....	65	95	- 30
Total (1 to 5 incl.)..	6,003	5,999	4
Capital transactions:			
1. Long-term	740	569	171
Assets.....	117	427	-310
Liabilities.....	623	142	481
2. Short-term	---	---	226
Assets.....	---	---	- 54
Liabilities.....	---	---	280
3. Total (1 and 2).....	---	---	397
Net errors and omissions..	---	---	- 46
Overall balance (increase or decrease (-) of foreign exchange reserve.....)	---	---	355

1/ International Monetary Fund formula. Source: (1).

or difficulties in exporting can cause trouble. This is a common problem and can happen to any country. However, Japan is more vulnerable than some other industrialized countries, partly because of its high degree of dependency on foreign trade.

TRADE OBJECTIVES AND POLICIES

Japan's trade objectives and policies stem primarily from the country's heavy dependence on trade and the related balance-of-payments problems which hang over the economy. Policymakers know a strong two-way trade flow is vital for economic progress. With its Government committed to sound money and balance-of-payments conditions, Japan has to cut back imports if the trade balance runs a large deficit for an extended period. As previously mentioned, economic growth has been checked three times since World War II to correct a threatening balance-of-payments situation.

The Japanese know that gaining greater access for their goods into foreign markets requires the lowering of their import restrictions. This general principle is accepted, but implementation is not simple.

Licensing and Foreign Exchange Control

All goods imported into Japan require licenses and all foreign exchange earned by exporters must be turned over to the Japanese Government. The authorities in meeting an emergency situation in the early postwar period made extensive use of the licensing system and with it a system of foreign exchange control and provisions for state trading. Essentially, the system was designed for controlling prices and assuring a more even distribution of scarce supplies internally. It was also an important means of protecting and managing a sensitive balance-of-payments situation until recovery had been achieved. Foreign exchange could be channeled into the most urgent uses and imports of luxuries restricted. Japan's trading partners recognized that such controls were necessary in the early postwar period and accepted them.

The core of the restrictive import control system is the foreign exchange budget, established semiannually for the periods

April 1 through September 30, and October 1 through March 31, dividing the Japanese fiscal year into two 6-month periods.

Currently, there are three groupings of imports, varying according to the degree of control over import licenses. The three budgetary systems are listed below in the order of the increasing difficulty with which licenses are obtained.

Automatic Approval

The Automatic Approval system of import licensing is the least restrictive. For goods specifically listed under this system for a 6-month budgetary period, import licenses are issued automatically to importers at any foreign exchange bank. This type of allocation is based on the Government's official forecast of the state of the economy during the 6-month period. In effect, it is an estimate of the amount the Government thinks will be used to purchase items on the Automatic Approval list. The allocation system is flexible. Unless bound by international agreement, it can be tightened up by deleting items or liberalized by adding. Also, if more funds are needed, these can, within limits, be allocated from the general reserve or other sources. If imports are running too high, the amounts budgeted under Automatic Approval for the subsequent 6 months may be reduced.

Automatic Fund Allocation

The Automatic Fund Allocation system was established as a transition step. It is slightly more restrictive than the Automatic Approval system. Imports of commodities listed under this category require applications to the Ministry of International Trade and Industry before licenses are granted. This system provides the Government with an interim step between rigid controls and Automatic Approval so that the effects of relaxed controls on competitive Japanese industry can be observed.

Fund Allocation

Fund Allocation is highly restrictive and is the category most often objected to by Japan's trading partners. Funds programmed under this category become ceilings above which imports are not likely to be permitted.

The whole exchange control system complicated trading and was difficult for foreigners to understand. To alleviate some of the confusion, the Japanese issued a "negative list" in 1962. This showed items still under Fund Allocation.

Most products remaining under the Fund Allocation system represent items produced by Japanese industries that the Japanese Government, for one reason or another, hesitates to leave unprotected and exposed to world competition. There is also still some apprehension by the Japanese about the balance-of-payments situation.

The Japanese point to three main reasons for maintaining trade barriers. First, there is the infant industry justification. It is contended that heavy industries, and especially chemical manufacturing, need further time to grow and develop to become more competitive before being subjected to competitive foreign industries. Second, the dual nature of the Japanese economy is also cited: While Japan has some modern, well equipped, efficient industries, it also has many small shops that do not have modern equipment and where output per worker is low. Third, in farm production, the problem of removing nontariff barriers is particularly painful. The Japanese are apprehensive that their small-scale high-cost farm operations are not yet ready to compete. Also, the Government has adopted a high price-support system for farm products. For many products, domestic prices are well above world prices. To protect the support program, the Government keeps tight control over imports of most farm products of which Japan is a substantial producer.

The origin of the present high price-support program was the Japanese postwar policy of seeking a high degree of self-sufficiency in agriculture. High prices and the assurance of a stable market were intended to hold down foreign exchange expenditures and stimulate farm production; they succeeded. With the balance-of-payments situation improved, self-sufficiency became less urgent. High price supports are now increasingly rationalized on a basis other than the original justification.

As Japan has industrialized and as the structure of the economy has changed, price supports to farmers have come to be used for improving the income and social position of farmers

relative to higher paid urban workers. The rationale of this is that, compared with incomes earned by other economic groups, the income of farm families in Japan is lagging seriously, creating social and economic problems. About one-third of the people live on farms, but farmers receive less than 10 percent of the national income. High support prices provide a means of equalizing income to farmers. More than two-thirds of the people are urban, however, and have to pay more for their food as well as higher taxes to subsidize the farm sector. Price supports can also be used by the Government as a means of guiding the land use pattern and thus promoting the enterprises that the Government feels should be encouraged, or conversely.

For whatever reasons and regardless of the justification, the high price supports create serious problems for Japan in international trade. The supports will require some adjustments before trade barriers, both tariff and nontariff, will likely be substantially lowered or removed.

Trade Liberalization

Japan as an important country in the free world has endorsed the concept of free trade as an objective of the free world community. Japan has joined in both the General Agreement on Tariff and Trade (GATT) 3/, and the International Monetary Fund

3/ A multilateral agreement, negotiated in 1947 among 23 countries for the purpose of increasing international trade through the reduction of tariffs and other trade barriers. There are now 44 participants, including the United States and all the Common Market countries. Japan became a full member in 1955.

Essential features of the General Agreement include: (1) Schedules or lists of products on which tariffs have been reduced or bound against increase, with separate schedules for each participating country; (2) a code of agreed rules under which the import and export trade of the contracting countries will be conducted; and (3) provision of a forum for the friendly discussion and settlement of mutual problems concerning international trade.

(IMF). 4/ Full membership in the Organization for Economic Cooperation and Development (OECD) is pending. 5/ The concept of promoting free trade is basic to all three of these groups.

The IMF authorities are encouraging Japan to move with deliberate speed in liberalizing its import restrictions. Thus, Japan is now considering upgrading its status from Article 14 under IMF to Article 8. Acceptance of Article 8 means that Japan will need to take broader action involving, among other things, greater freedom in the movement of capital in and out of the country. The waiting period for repatriation of foreign capital has been removed.

In the early postwar years, Japan's trading partners recognized that, with scarce resources and balance-of-payments problems, Japan needed to control imports until the economy

4/ A specialized agency of the United Nations, IMF is an association of 81 nations for promoting international monetary cooperation and the expansion of international trade. IMF engages in foreign exchange and gold transactions with members. It has recommended anti-inflationary measures with respect to investment and bank credit, government spending, and taxation. It has pressed for fiscal and monetary measures to lessen the need for foreign exchange restrictions, and in cases of marked improvement in monetary reserves, has advocated relaxation of control on imports.

5/ An organization of 20 West European countries (including all EEC members), the United States, and Canada. The organization seeks to promote economic growth in member countries and in nonmember countries in the process of economic development and to contribute to expansion of world trade.

OECD is a successor of the OEEC, the Organization for European Economic Cooperation, established in 1948 to help Europe recover from the war. Action to form a more broadly based organization was taken in December 1959, when representatives of the United States, France, Germany, and the United Kingdom recommended a study of the methods of promoting consultation on major economic problems.

recovered. A reasonable amount of time to make an orderly transition toward free trade was also granted. This was provided for as a temporary situation under Article 14 of IMF. However, by 1958, rapid economic progress and the improved balance-of-payments position had largely removed this justification, enabling Japan to make a start towards complying with IMF recommendations that trade be liberalized on a step-by-step liberalization program.

Liberalization is defined here as moving a product from the Fund Allocation list to either the Automatic Approval or the Automatic Fund Allocation list. Progress in trade liberalization is shown in table 6.

The last liberalization action took place August 31, 1963, raising the rate of liberalization to around 92 percent (see footnote 1, table 6).

The amount of liberalization in farm products has been relatively slow and the prospects for further immediate progress are not so good. The value and import status of principal agricultural commodities imported by Japan in 1962 are shown in table 7.

The United States is not an exporter of wool and sugar, but is vitally interested in the other products shown in table 7. There are also several other agricultural items of interest to the United States that are still under nontariff restrictions.

Restrictions on citrus fruits, dairy products, cattle and hogs, and most processed food products have not been liberalized. Prospects are good that early action will be taken to liberalize grain sorghum. Citrus fruits, especially lemons, may be liberalized. Pressures by domestic groups for protection against lower cost imports mitigate against early action in some cases. Because of the policy of protecting the domestic dairy industry, dairy products are expected to be among the last to be liberalized. However, if Japan is to comply fully with Article 8 of IMF, the budgeting of foreign exchange will be eliminated.

Japan has made little progress in getting away from high price supports. In fact, the movement has been in the other

Table 6.--Japan: Rate of import liberalization, 1958 through August 1963 1/

Period	Year	Rate
		<u>Percent</u>
First half.....	1958	25
Second half.....	1958	29
First half.....	1959	34
Second half.....	1959	31
First half.....	1960	41
Second half.....	1960	44
April.....	1961	62
September.....	1961	65
December	1961	70
April.....	1962	73
October	1962	88
April.....	1963	89
August <u>2/</u>	1963	92

1/ Rate of import liberalization equals import value in 1959 of commodities liberalized at a specific time divided by total value of imports in 1959.

2/ Data are from U. S. Embassy, Tokyo.

Sources: (6).

Table 7.--Japan: Principal farm products imported in 1962 and import status as of October 1963 1/

Commodity	Import value from U. S.	Total imports	Import status <u>2/</u>
	<u>1,000 dol.</u>	<u>1,000 dol.</u>	
Cotton.....	121,636.1	376,664.3	AA
Wool.....	50.1	290,843.5	AA
Wheat	63,988.1	180,930.1	FA
Corn.....	59,584.0	133,757.1	AA
Soybeans	115,990.1	132,698.1	AA
Sugar.....	0.0	95,069.1	AA
Hides and skins ..	39,709.0	53,577.0	AA
Tobacco	24,116.0	31,240.0	FA
Inedible tallow....	16,648.1	20,592.0	AA
Grain sorghums..	20,084.0	20,337.0	FA

1/ Data are from U. S. Embassy, Tokyo. 2/ AA = Auto-mac Approval category; FA = Fund Allocation category.

direction. The Agricultural Basic Law went into effect in June 1961 and was implemented in October of the same year with a regulation for price stabilization of livestock and dairy products. The Government is permitted to intervene in the market to regulate supplies by purchasing from producers when prices fall below fixed minimum levels and can release stocks or can import when prices rise above ceiling prices.

Customs and Tariff Laws

Few import duties are imposed on agricultural raw materials for industrial use, but tariffs are high on nonessential and luxury foodstuffs. Duties under the tariff schedule are generally applied on ad valorem rates. At present, Japan does not accord preferential duties to any country but does impose the more favorable conventional import duty on merchandise from countries that grant Japanese products most-favored-nation treatment. The conventional rates represent, for the large part, lower duties negotiated in trade agreements under the GATT.

Before liberalization, tariffs on agricultural products were moderate and in some cases were waived. Domestic producers were effectively protected by nontariff restrictions. With liberalization, this will no longer hold. Consequently, with the import liberalization, the Government has been changing its tariff policy, revising it upward to ease the adverse effect of import liberalization on domestic agricultural and marketing industries. Several categories of tariffs have been developed, including temporary tariff rates, tariff quotas, and seasonal tariff rates.

Bilateral Trade Agreements

As of October 1, 1962, Japan had bilateral trade agreements with about 40 countries. Many of the agreements provide for trade in agricultural products, but not necessarily in specific amounts. Most are agreements of broad understanding as to type of commodities to be exchanged and acceptable currency for making payment. But most do not stipulate quantities of each item to be traded or the total amount of trade. Only the arrangements with the Soviet Union and North Korea have an estimated value of trade. Only the agreement with the Republic of Korea includes a clearing arrangement.

State Trading

Rice is the only food crop remaining under Government control both in buying and selling. Official prices paid to producers are set each year. All rice for sale by producers is subject to purchase by the Food Agency through licensed handlers. It is sold under ration to consumers at fixed prices through licensed dealers.

Wheat and barley are handled a little differently. The Food Agency of the Ministry of Agriculture is authorized under the Food Control Law to purchase wheat and barley from producers in such unlimited amounts as they wish to deliver at prices fixed by the Government. The Agency has exclusive control over imports and sells wheat and barley at fixed prices. The Government turns a profit on imported grains; this helps offset price-support costs.

Tobacco production is a state monopoly and an important source of revenue for the national treasury. The Japan Monopoly Corporation controls the cultivation, importation, manufacture, and distribution of tobacco and tobacco products. Only farmers licensed by the Monopoly may grow and sell tobacco. Only the Monopoly Corporation, or a firm authorized by it, may import leaf tobacco. Prices of tobacco products are also set by the Monopoly.

In the area of trade policy, Japan has a broad interest in buying from countries with a view to increasing Japanese exports. State trading raises the possibility that the above consideration may influence the decision as to where Japan will elect to buy certain commodities. For example, this factor may have influenced decisions to buy rice and corn from Southeast Asia and soybeans and other products from Communist China.

GENERAL TRENDS IN THE FOREIGN TRADE OF JAPAN

Japan's foreign trade has undergone marked change since World War II. It has not only grown rapidly, but has also changed in composition and in geographic orientation. These changes have come about as a result of Japan's own dynamism and from changing political world events and alignments of nations. Fast growth and some transition in the makeup of trade and trading areas continue, but by and large, Japan has settled comfortably into the free world

community of nations. Consequently, at the present time, the explosive growth is the most noteworthy aspect.

After the end of World War II, Japan's foreign trade did not regain the 1937 level until 1951 (table 8). Since recovery from the war, which--as pointed out earlier--is generally considered to have been achieved by 1951, Japan's imports and exports have increased spectacularly. The value of imports in 1962 amounted to more than 2.9 times the 1951 level. Similarly, the value of exports in 1962 exceeded 3.6 times the 1951 level. This booming trade has far exceeded the growth in world trade and has played a key role in enabling Japan to progress economically.

Through trade, Japan has been able to make progress as a processing nation, growing and prospering by importing, manufacturing, and exporting. As mentioned previously, the key to the future of Japan is also linked to this formula. World trade opportunities and the terms of trade will determine the degree of success. Japan has proven its ability to make quality products of the type that the world markets want, and at competitive prices.

Balance of Trade

On the basis of trade statistics, which show imports c.i.f. and exports f.o.b., Japan shows an unfavorable position in the merchandise account for every year since 1950 (table 9). Only in 3 years since 1950, however, has this been serious and precipitated major balance-of-payments difficulties. The merchandise account, however, is a key item in the balance-of-payments problem and has to be prudently managed.

A statistical profile of Japan's balance-of-payments account for 1962 is shown in table 5. This puts imports and exports on an f.o.b. basis and shows the larger picture in a realistic manner. This accounting shows a surplus in the merchandise account of \$397 million (IMF formula) by this method of calculation. However, 1962 was a good exporting year for Japan, reflecting, among other things, the improvement in the U. S. market for Japanese exports. Self-imposed austerity shows again Japan's ability and willingness to control imports and slow down economic growth to achieve a sound financial position in the foreign account. Slowing down an economic boom may not prove a popular course for a

Table 8.--Japan: Trade with the world and with the United States, 1936-38 average, and 1950-62 annually

Year	World		United States			
	:		:		:	
	Value		Value		Percentage of total	
	Imports	Exports	Imports	Exports	Imports	Exports
	<u>Mil. dol.</u>	<u>Mil. dol.</u>	<u>Mil. dol.</u>	<u>Mil. dol.</u>	<u>Pct.</u>	<u>Pct.</u>
1936-38.....	1,162	1,117	291	163	25.0	14.6
1950.....	974	820	427	183	43.8	22.3
1951.....	1,995	1,355	697	190	34.9	14.0
1952.....	2,028	1,273	769	234	37.9	18.4
1953.....	2,410	1,275	760	234	31.5	18.4
1954.....	2,399	1,629	849	283	35.4	17.4
1955.....	2,471	2,011	774	457	31.3	22.7
1956.....	3,230	2,501	1,067	552	33.0	22.1
1957.....	4,284	2,858	1,626	607	38.0	21.2
1958.....	3,033	2,877	1,058	692	34.9	24.1
1959.....	3,599	3,456	1,116	1,051	31.0	30.4
1960.....	4,491	4,055	1,554	1,107	34.6	27.3
1961.....	5,811	4,236	2,097	1,073	36.1	25.3
1962.....	5,637	4,916	1,809	1,400	32.1	28.5

Source: (19).

Note: Japanese yens were converted to U.S. dollars at the following rates (U.S. dollars per yen): 1936, 0.2902; 1937, 0.2881; 1938, 0.2850; 1951-61, 0.002778. Exports are valued f.o.b. port of shipment, and imports c.i.f.

Table 9.--Japan: Balance of trade, 1950-62

Year	Imports (c.i.f.)	Exports (f.o.b.)	Balance
	Million dollars	Million dollars	Million dollars
1950.....	974	820	-154
1951.....	1,995	1,355	-640
1952.....	2,028	1,273	-755
1953.....	2,410	1,275	-1,135
1954.....	2,399	1,629	-770
1955.....	2,471	2,011	-460
1956.....	3,230	2,501	-729
1957.....	4,284	2,858	-1,426
1958.....	3,033	2,877	-156
1959.....	3,599	3,456	-143
1960.....	4,491	4,055	-436
1961.....	5,811	4,236	-1,575
1962.....	5,637	4,916	-721

Source: (12).

democratic government to take. It runs the risk of public disapproval and possibly a loss at the polls for the party in power. But Japan's leaders have been willing to take that chance.

Direction of Trade

The turning point in the orientation of Japan's foreign trade came about as a result of World War II and the loss of the Japanese empire, followed by the emergence of Communist power in Asia. As pointed out earlier, the war crippled the Japanese economy. Foreign trade was virtually cut off early in the war, except with Japanese-held areas.

After defeat, the empire was lost as a captive market and also as a source of raw materials. Government and business leaders faced the problem of finding new markets, regaining former outlets, and expanding the volume of trade wherever possible. Figure 2 shows the importance of Asian trade in the Japanese prewar trade pattern. Japan's exports to Asia accounted for 60 percent of total exports. Exports to Asia now total only

about 40 percent. Trade with Mainland China, which accounted for 18 percent of prewar exports, has dwindled to an insignificant percentage. This has been one of the big changes.

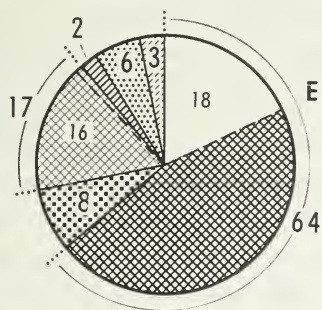
This shift has hurt China more than Japan. The Japanese have experienced some problems but certainly no insurmountable difficulties in finding new and more reliable outlets around the world. The United States especially has led in providing a market for an expanding volume of Japanese goods. In 1936-38, Japan's exports to the United States amounted to \$163 million or 14.6 percent of its total exports. In 1962, U. S. purchases from Japan amounted to about \$1,400 million or 28.5 percent of Japan's total exports. Exports to the United States in 1962 increased by more than 30 percent over 1961.

The United States, as a market, as a source of supply, and as a friendly ally, has helped a defeated Japan find a new position of strength and growth. This has more than offset the decline in Sino-Japanese trade and has enabled Japan to assume a strong position as a unified, political, and economic partner of the free world. Today, Japan stands out as the only strong industrialized nation in the Far East with a surging industrial economy and a bright future.

However, like the United Kingdom, Japan feels that expanding two-way trade must be a continuing national objective. Trade with the Communist Bloc in nonstrategic items is not ruled out, but the overall volume of trade is of minor importance to Japan's well-being. Not all Japanese agree as to the advisability of even trying to promote trade with the Communist countries.

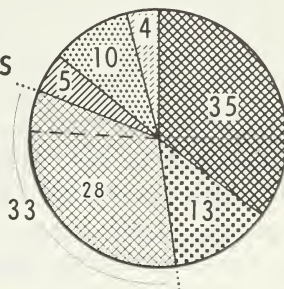
The reasons cited by those who do favor increased communist trade are: (1) that Japan once enjoyed a brisk trade with nearby Mainland China, (2) that the geographic location of the two countries favors trade, (3) that China and Japan have certain historical and cultural ties which facilitate exchanges, and (4) that Japan is now producing equipment and machinery which would be useful to the technologically backward Bloc countries. These materials include such items as steel pipes, steel vessels, precision machinery, and other heavy industry products. The Bloc can, within limits, offer Japan low-quality coal and iron ore, crude oil, lumber, wheat, hides and skins, soybeans, and other raw materials.

JAPAN'S EXPORTS AND IMPORTS BY CONTINENTS

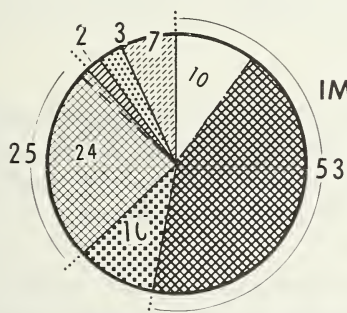


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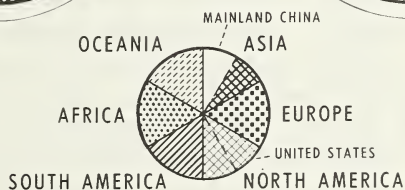
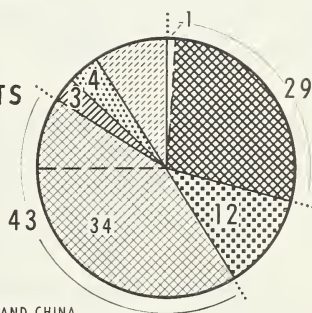
EXPORTS



1959-61



IMPORTS



FIGURES IN SECTORS ARE PERCENT OF TOTAL

U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 2647-64 (4) ECONOMIC RESEARCH SERVICE

Figure 2

On the other hand, Communist countries insist on trading on what amounts to a barter basis; they seek long-term credits, use trade for diplomatic purposes, and are generally neither reliable markets nor dependable sources of supply. Japanese trade with the Communist countries may show some increases, but trade with these areas as a percentage of Japan's total trade is expected to remain small, provided Japan has access to free world markets. The Japanese have stoutly resisted Communist pressures to link trade and diplomacy and are expected to continue adamant in this respect. However, whether and to what extent Japan increases trade with the Bloc depends on the alternatives. Japan needs full partnership in the free world trading community. In such a partnership, Japan has much to gain and much to offer. Currently, Japan's flourishing trade depends very heavily on the United States and Southeast Asia. The Japanese would like to expand trade with other countries in the free world, but gaining the position of a full partner has not been without problems.

Japan became a full member of the GATT in 1955. Many countries in recent years have invoked Article XXXV of the Agreement, which permits member nations to discriminate against imports from countries that were not initially members.

In Japan's case, low wages were cited as the reason for discriminating against some Japanese exports. Those invoking Article XXXV against Japan included some of the important trading countries of Western Europe, which together account for about one-fourth of world trade. Consequently, Japanese goods have had some difficulties getting into European markets. The Japanese have successfully waged a diplomatic campaign against such discriminations and have succeeded in persuading most of the European countries to revoke Article XXXV, hopefully paving the way for more trade. But there are problems remaining that involve such issues as tariff levels, free trade areas, and bilateral trade agreements. These concern Japan as they do other countries. The European Common Market, for example, is a cause for some Japanese concern.

Japan has followed restrictive policies that have been protective of the Japanese market. Dismantling of these protective devices should help further in gaining access to foreign markets.

Figure 2 shows Japan's trade in 1959-61 by continents and percentages. The importance of North America stands out together with Asia. On a world basis, Japan's trade falls roughly into three spheres of about equal importance: North America, Asia, and the rest of the world. Leading free world countries trading with Japan in 1961-62 are shown in table 10. Trade with the principal Communist countries is shown in table 11. Throughout the free world, there are opportunities for Japan to promote increased trade. Judging from past performances, the Japanese will no doubt take advantage of opportunities and meet changing world conditions with flexibility and alertness.

Table 10.--Japan: Trade with principal free world countries, 1961 and 1962

Country	Exports		Imports	
	1961	1962	1961	1962
	Mil. dol.	Mil. dol.	Mil. dol.	Mil. dol.
United States.....	1,067	1,400	2,096	1,809
Indonesia.....	154	115	85	91
Hong Kong	154	192	24	19
Thailand	134	149	78	72
Philippines	128	120	156	184
Korea, Republic of.....	126	138	22	29
Canada.....	117	126	266	255
United Kingdom	115	192	137	146
Ryukyu Islands	114	134	33	41
India.....	111	119	111	93
Singapore	102	105	25	23
Liberia	101	50	6	3
Australia.....	100	139	452	436
Taiwan.....	96	119	68	61
Brazil.....	86	44	61	40
West Germany.....	84	103	193	213
Belgium, Netherlands, and Luxemburg.....	83	92	53	56
Pakistan.....	52	57	29	29
South Africa.....	49	60	81	113
Argentina	41	72	65	35
Federation of Malaya.....	31	39	200	185
Kuwait	26	27	240	262
New Zealand	22	27	50	34
Mexico.....	21	23	135	128
Saudi Arabia	20	23	129	165

Source: (19).

Table 11.--Japan: Trade with principal Communist countries, 1961 and 1962

Country	1961		1962	
	Imports	Exports	Imports	Exports
	1,000 dol.	1,000 dol.	1,000 dol.	1,000 dol.
Soviet Union.....	145,421	65,385	147,321	149,402
Communist China:	30,897	16,640	46,024	38,463
Cuba.....	24,338	11,801	35,809	10,603
North Vietnam....	12,697	4,588	12,955	3,354
East Germany	9,466	1,580	4,711	369
Rumania.....	5,240	1,814	3,512	6,367
Czechoslovakia...	4,751	4,236	4,074	3,604
North Korea.....	3,461	4,456	4,554	4,781
Poland.....	1,837	1,725	1,488	2,687

Source: (19).

Changing Composition of Trade

In the early postwar years, Japan resumed importing necessary raw materials and food. Within the last decade, the country has achieved near self-sufficiency in rice, greatly reducing the need for imports of this leading food grain. In many respects, however, Japanese imports as a percentage of the total have not changed greatly. Raw materials for use in industry make up a large part, nearly half, of total imports. These include such leading items as raw cotton, wool, crude rubber, wood, soybeans, iron ore, iron and steel scrap, and nonmetal ores. Coal and petroleum for fuel remain major imports. The country still imports large amounts of food of which wheat and sugar are leading items.

In addition to industrial raw materials and foodstuffs, Japan in recent years has imported new machinery and plant equipment to rebuild industry using the most advanced technology. This has cost foreign exchange and has put additional strains on the balance-of-payments position. This explains in large part the fact that a high rate of domestic investment has been an underlying cause of balance-of-payments troubles.

It is on the export side, however, that Japan is making a striking basic shift in the composition of its trade. In general terms, Japan is purposely moving from a position of a nation geared to export labor-intensive products such as textiles to a country prepared to produce and sell products of the most advanced industry. This shift to diversify has many important implications and is indicative of the adaptability and daring of Japanese leadership in the face of changing world economic conditions. One aspect of the change is that Japan is moving forward into a position of a mature industrial power with broad capabilities. In the industrial field, Japanese heavy industry will face competition from industrialized countries in selling machinery and heavy equipment, but is confident of being able to compete.

Part of the basis for Japan's shift of emphasis to heavy industry is that demand for Japanese textiles is lessening in some countries and that Japan is losing some of its former advantages in producing such labor-intensive items. Wage increases and social security costs, stimulated by the flush of prosperity, are increasing Japan's production costs. Hong Kong, India, Pakistan, Communist China, and other countries with low wages are moving into this field to supply not only their own needs, but also to export as a step toward industrialization. Japan's wages are increasing as is the total cost of production. With developing countries pushing their own industrial development schemes, Japanese leaders apparently feel that there will be markets for machinery and chemical products. Industrialized countries, because of specialization, also can be important customers for each other's industries. Japan now has the skilled labor and the capital and technology to carry on production in heavy industry. The country's steel production reached 28 million metric tons in 1961, a level exceeded only by the United States, the Soviet Union, and West Germany.

Before World War II, textile goods, such as cotton yarn, raw silk, and cotton cloth, made up about 40 percent of total exports. Textiles are still the leading export, but the share of the total has dropped to about 30 percent, including synthetic fiber products and hosiery. Between the 1934-36 period and 1956-61, the value of machinery exports went up from 6 percent to 23 percent of total exports; iron and steel went from 3 percent

to 9 percent, and chemicals from 3 percent to 9 percent (6). Japan is also doing well in the export market with radios, cameras, toys, ceramics, and plywood. Shifting to heavy industry does not mean an abandonment of textiles and light industrial exports. It has the effect of diversifying and reducing the importance of these manufactures.

An important aspect of Japan's success since recovery from the war in importing, manufacturing, and exporting has been that world markets for Japan's products have been strong and prices generally favorable, whereas world market prices for raw materials, of which Japan is a heavy buyer, has weakened, making for lower import prices. However, the fact that such factors are external to the Japanese economy and are not generally of Japanese making should not detract from the excellent job Japan has done in diversifying production and in keeping its exports competitive in price and quality in world markets. To meet changing world demand, Japan has strengthened its position by exercising initiative and pushing new products--such as transistor radios, which have found a ready world market and have expanded export earnings. It is from the sales of such manufactures that Japan can remain a strong market for farm products.

AGRICULTURAL TRADE

Japan is a leading importer of farm products. Agricultural imports by value averaged roughly \$1,623 million for the 1957-61 period and are trending upward. Imports, sparked by boom conditions in the Japanese economy, reached \$1,983 million in 1961. Despite a slowing of the domestic economy in 1962 and sluggishness in the cotton textile industry leading to a sharp decline in raw cotton purchases, total farm imports dropped very little from the 1961 peak (table 12). Imports by value of selected farm products for 1952-62 are shown in table 13.

The fact that Japan must import about 20 percent of its food supply stands out in the wide selection of import items. Greatly increased self-sufficiency in rice can be noted and an upsurge in the consumption of corn, which is associated with the livestock feeding industry. However, raw cotton and wool remain the two largest agricultural imports. These and other fibers are almost entirely of import origin and provide the basic raw

Table 12.---Japan: Imports of agricultural commodities by category and total imports from all sources, 1952-62

Commodity group 1/	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	<u>Million dollars</u>										
Livestock and animal products..	35.8	41.2	29.1	34.3	43.7	56.0	42.3	56.7	83.1	97.2	103.7
Cereal and prepa-											
arations.....	432.7	432.6	488.7	440.1	369.2	312.2	314.8	289.8	291.1	329.3	373.4
Fruits, nuts, and vegetables...	16.1	15.2	19.8	19.6	15.0	28.4	25.7	29.0	33.3	42.2	56.3
Sugar and preparations.....	116.5	125.5	113.2	121.2	133.7	169.3	128.1	113.3	121.4	134.9	134.6
Tobacco, unmanufactured.....	11.4	8.5	9.1	12.9	8.4	4.6	5.5	12.0	13.6	21.0	32.3
Fats, oils, and oilseeds.....	57.7	100.1	121.3	184.5	169.5	179.8	167.6	205.1	227.8	253.1	241.0
Natural rubber...	47.6	48.3	40.9	70.5	79.2	89.7	72.2	113.1	143.0	111.5	108.9
Natural fibers...	567.6	584.2	567.0	544.2	695.7	722.0	565.7	595.2	733.3	908.2	717.2
Other agricultural products...	19.1	31.6	23.3	33.6	28.7	38.7	45.5	43.2	59.9	85.2	102.1
Total agricultural...											
tural.....	1,304.5	1,387.2	1,412.4	1,460.9	1,543.1	1,600.7	1,367.4	1,457.4	1,706.5	1,982.6	1,869.5
total all commodities.....	2,028.0	2,410.0	2,399.0	2,471.0	3,230.0	4,284.0	3,033.0	3,599.0	4,491.0	5,811.0	5,637.0

1/ Commodity groups are similar to those used in the Standard International Trade Code, but are not strictly comparable.

Source: (12).

Table 13.---Japan: Imports of selected agricultural commodities by value from all sources, 1952-62

Commodity	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
	----- Million dollars -----										
Raw cotton.....	418.0	373.8	409.4	362.0	451.4	420.4	340.3	341.0	420.0	511.2	376.7
Soybeans.....	22.4	55.6	66.5	98.2	84.6	93.4	90.8	96.2	107.4	128.8	132.7
Wheat.....	156.1	139.0	168.0	167.4	165.4	163.3	154.2	160.6	176.9	179.4	180.9
Corn.....	6.1	14.6	14.4	25.9	25.5	36.5	40.0	53.4	81.0	107.0	133.7
Rice.....	184.4	214.8	250.9	196.7	108.3	48.2	72.5	37.7	19.6	16.6	23.8
Barley.....	84.4	60.6	51.1	39.9	62.0	56.4	41.4	28.3	0	0	0
Beef tallow.....	13.0	15.4	18.8	25.3	22.1	27.1	24.6	27.2	25.3	28.3	20.6
Hides and skins..	18.9	30.6	19.8	22.4	30.5	28.4	26.4	40.6	41.3	54.9	60.4
Sugar.....	111.6	121.5	108.2	115.9	128.3	161.2	120.6	104.7	111.2	122.3	118.4
Natural rubber...	47.6	48.5	40.9	70.5	79.2	89.7	72.2	113.1	143.0	111.5	108.9
Tobacco.....	11.4	8.5	9.1	12.9	8.4	4.6	5.5	12.0	13.6	21.0	32.3
Wool.....	125.1	179.1	132.0	153.6	208.9	258.3	189.8	209.9	262.0	336.2	296.6
Total.....	1,199.0	1,262.0	1,289.1	1,290.7	1,374.6	1,387.5	1,178.3	1,224.7	1,401.3	1,617.2	1,485.0

Source: (12).

materials for the country's large textile industries. Crude rubber, also a major import, is in the industrial raw material category. Heavy purchases of wool help make Japan a leading customer for Australian wool. Purchases of crude rubber and sugar are beneficial to countries of Southeast Asia, including Taiwan.

Of Japan's farm imports, the items of most interest to the United States since World War II have been raw cotton, soybeans, tallow, hides and skins, wheat, corn, barley, rice, and leaf tobacco. These items at one time constituted about 95 percent of U. S. farm exports to Japan. The list is now changed somewhat, as will be pointed out later, but these in total still make up the bulk of U. S. farm sales to Japan. Because of the importance of these products to U. S. agriculture, they are discussed more fully in the following section, together with some comments on sources of competition. Rice and barley are included because of their importance in the early 1950's and to show the changes that have occurred.

Imports of Selected Farm Products by Country of Origin

Soybeans

Japanese imports of soybeans since 1950 have trended sharply upward (table 14). Imports, however, did not reach the prewar level until 1955. U. S. soybean growers have benefited considerably from this growing demand. Soybeans constitute the second largest U. S. agricultural export to Japan. (Cotton is first.) Also, Japan is the largest buyer of U.S. soybeans.

Japanese trade statistics for 1962 report imports of 1.1 million metric tons of U. S. soybeans and show that U. S. soybean growers supplied 87 percent of Japan's total imports for the year (table 14). Domestic production is declining, amounting to only 336,000 metric tons in 1962, about one-fifth of requirements. As shown in table 3, Japan has imported a growing share of its soybean supply since 1950-52.

Before World War II, Japan imported most of its soybeans from Manchuria, now included in Mainland China. Much of the supply went into making such foods as miso (soybean paste),

Table 14.--Japan: Imports of soybeans by quantity and country of origin, 1950-62

Year	United States	China	Brazil	Others	Total
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
1950.....	95	108	0	1	204
1951.....	293	6	0	11	310
1952.....	162	1	2	2	167
1953.....	409	24	14	1	448
1954.....	443	46	18	1	508
1955.....	572	204	31	1	808
1956.....	536	166	12	3	717
1957.....	605	200	0	0	805
1958.....	777	89	28	11	905
1959.....	951	0	29	18	998
1960.....	1,091	<u>1</u> /	11	26	1,128
1961.....	1,102	42	3	11	1,158
1962.....	1,126	165	2	0	1,293

1/ Less than 500 metric tons.

Source: (12).

shoyu (soy sauce), and tofu (bean curd). Since the war, Chinese beans have reached Japan in significant quantities only in the period 1955-57. During these years, Chinese beans accounted for nearly one-fourth of the market. Purchases of Mainland-grown beans dropped abruptly in 1958 after the Communist authorities, for political reasons, virtually ended all trade with Japan. Also, beginning in 1959, farm production in Communist China turned downward, creating an internal crisis and reducing supplies for export.

Chinese beans are beginning to come back on the Japanese market. Imports increased in 1962, rising from 42,000 to 165,000 metric tons. This increase gave China 12.8 percent of the market compared with 25 percent in 1957. Imports from China made the U. S. percentage of the market decline from 95 percent in 1961 to 87 percent in 1962. The Chinese Communists

have signed an agreement with a private trade group in Japan calling for Japan to import 150,000 metric tons of Chinese soybeans each year until 1967.

A great part of the beans currently imported into Japan are crushed for oil, and the quantities crushed are increasing. Because of their higher oil content, U. S. beans in 1962 were valued from \$5 to \$9 per ton more than Chinese beans. Shipping costs are less, however, for soybeans from nearby China. Also, some Japanese appear to think that expanding trade with the Mainland is desirable for Japan's own trade interest. Soybeans represent one of the few export items suited to Japanese needs which China may be able to offer as payment for Japanese industrial equipment and supplies. In 1935-39, Japan averaged importing about 618,000 metric tons of soybeans annually from China.

Japanese food processors were formerly accustomed to using Japanese and Chinese soybeans that were not mechanically harvested. In switching to machine-harvested U. S. soybeans, some complaints have arisen in the past of excessive foreign matter, cracked and split beans, and a lack of uniformity in the color of the final product. These complaints are being studied on a cooperative basis in an effort to remove or reduce the objectionable features. Also, it should be pointed out that U.S. beans going to Japan have met U.S. standards most of the time and U.S. industry is now supplying beans of improved quality.

In considering the competitive aspects of Chinese-grown soybeans, it should be kept in mind that China is still potentially a strong competitor. Before the crisis in production, China in 1959 shipped nearly 1,280,000 metric tons of soybeans; the Soviet Union alone took 639,000 tons. With the current rift in Sino-Soviet relations, the soybeans that might have gone to the Soviet Union may be offered for sale in free world markets if the Chinese can overcome production problems.

Japan liberalized soybean imports in July 1961, thus removing a barrier to greater imports. The tariff rate has been increased from 10 percent to 13 percent but Japanese crushers are complaining that this rate puts soybean oil at a disadvantage in competition with other oils; they are pressing for removal or

reduction of the tariff. It is expected that the Government will act to prevent hardship on their segment of the industry.

The long-term plan of Japan's Economic Planning Agency estimates that import requirements for soybeans will triple by 1970 from the 1956-58 level. On this basis, the United States can expect a vigorous and expanding soybean market in Japan, even if purchases of Chinese beans increase.

Cotton

The cotton textile industry has played a major role in the history and growth of modern-day Japan. In 1938, the country had 12.6 million spindles. By the end of World War II, less than 3 million remained, due to the demands for scrap metal as well as the damage inflicted by air raids. Also, before the war the Japanese followed a policy of exporting spindles which restricted the buildup of the supply.

As of June 30, 1962, there were more than 9 million registered spindles. Much of the cotton textile industry has been rebuilt and is now using modern equipment, giving Japan a highly efficient cotton textile industry and one that has been very competitive in the export market. There are periodic marketing problems, however. On June 30, 1962, a total of 1,065,000 spindles were reportedly not operating because of a cutback in the textile production program imposed by means of Government regulation.

Japan does not produce any significant quantities of cotton. Since 1950, the reconstructed cotton textile industry has imported increasing quantities of raw cotton (table 15). By 1961, imports had doubled from 1950. This was due partly to increased domestic consumption. Purchases in 1962 dropped sharply, cutting net imports by 889,000 bales. Imports from the United States were down by 1,026,000 bales. There were minor increases from some other suppliers. The decline in total purchases is attributable to slackness in the textile industry and is expected to be only temporary.

Japan has been a leading U. S. market. Total imports and the part supplied by the United States are shown in table 15. Japan purchases cotton from many countries, but the United States

Table 15.--Japan: Imports of cotton by quantity and country of origin, 1950-62

Year	United States	Burma	India	Pakistan	Iran	Mexico	El Salvador	Nicaragua	Brazil	Egypt	Others	Total
	-	-	-	-	-	-	-	-	-	-	-	-
						- 1,000 bales	1/-					
1950.....	1,296	2/	50	167	0	44	0	0	2	18	38	1,615
1951.....	820	19	38	253	5	314	2/	6	90	58	144	1,747
1952.....	967	23	148	292	2/	341	0	3	51	58	82	1,965
1953.....	675	57	100	584	36	458	3	11	65	81	152	2,222
1954.....	928	40	70	153	52	472	11	28	272	88	133	2,247
1955.....	654	32	172	239	21	445	51	51	193	83	84	2,025
1956.....	979	30	180	291	9	729	87	25	202	105	124	2,761
1957.....	1,415	21	156	256	16	470	44	16	153	85	71	2,703
1958.....	923	11	184	201	12	574	85	28	80	71	173	2,342
1959.....	681	17	224	193	13	888	154	104	125	67	324	2,790
1960.....	1,718	25	115	146	18	659	102	50	55	71	262	3,221
1961.....	1,906	17	198	72	11	777	142	82	135	61	254	3,655
1962.....	880	22	210	132	2/	801	177	107	172	37	228	2,766
1/ 480 lbs. net.	2/	Less than 500 bales.										

Source: (12).

is the leading supplier. Mexico is another major supplier. Pricing problems have arisen for U. S. suppliers at various times, causing declines in purchases. Prices are expected to remain a major, and possibly the decisive, consideration with Japanese buyers.

Manmade fibers have made some inroads into the market for cotton textiles. Cotton goods now must be priced competitively at the retail level and be of comparable quality with textiles made of synthetic fibers.

The United States and Japan have been cooperating in cotton market development programs for several years, with the purpose of keeping the demand for cotton textiles strong. These efforts have shown some concrete results; Japanese per capita demand for cotton products has increased despite competition from synthetic products. The Japanese cotton textile industry has been impressed sufficiently by the results so that a supplementary promotion program, financed entirely with their own funds, has been started. Rising consumer income should also strengthen the demand for quality cotton textiles, and the industry has improved the quality.

Another measure taken to stimulate the sale of U. S. raw cotton has been in the field of credit. Through the Export-Import Bank, the United States has extended several loans to the Japanese at relatively low interest rates to facilitate the sale of U. S. cotton. The 16th such credit was extended to finance exports of around 400,000 bales of U.S. cotton to Japan during the 1962-63 crop year.

Wheat

The story of wheat consumption in Japan since 1950 has been one of growth in quantities consumed (table 16) and of fundamental changes in utilization. Japanese imports of wheat increased from 1,573,000 metric tons in 1950 to 2,562,000 tons in 1962. During the period, however, the U. S. share of the Japanese wheat market declined. Canada took the lead in 1959 and has been the leading source of supply since then.

There are several underlying reasons why Japan is consuming and importing greater quantities of wheat. In the early

Table 16.--Japan: Imports of wheat by quantity and country of origin, 1950-62

Year	United States	Canada	Argentina	Australia	Others	Total
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
1950...	868	138	211	247	109	1,573
1951...	1,204	388	15	45	2	1,654
1952...	1,190	443	0	28	1	1,662
1953...	928	686	33	40	0	1,687
1954...	1,095	808	264	20	0	2,187
1955...	1,154	872	79	182	0	2,287
1956...	1,080	904	42	251	0	2,277
1957...	1,267	862	0	111	0	2,240
1958...	1,092	1,035	2	151	0	2,280
1959...	873	1,127	0	396	16	2,412
1960...	981	1,326	0	307	64	2,678
1961...	799	1,459	0	355	18	2,631
1962...	880	1,207	0	446	29	2,562

Source: (12).

postwar years, Japan imported wheat out of necessity and mostly from the United States. The Japanese have learned that importing wheat is practical and economical. The same expenditure of foreign exchange will purchase more calories in the form of wheat than rice. Moreover, to improve the nation's health, the Japanese wish to diversify the diet, and wheat with a high protein content offers nutritional advantages. For these reasons, the Government has encouraged the use of wheat. Bread is served in the school lunch program; youngsters are acquiring a taste for it. There have also been demonstrations and promotion programs to encourage the use of wheat products. These factors have strengthened the demand for wheat and stimulated imports.

On the other hand, the Japanese Government pays high support prices to rice, barley, and wheat farmers, then attempts to keep the consumer price in line by taking a loss on resales, especially on rice. These losses are covered in part by Government profits on imported wheat. Wheat production is not controlled,

but the Government guarantees a relatively high floor price. The purchase price for the 1963 wheat crop was set at \$3.12 per bushel. Imported wheat is sold to the Japanese millers at a substantial profit to the Government.

The relative prices of grains are a consideration affecting consumption. If Japanese millers could buy wheat at world market prices and sell domestically at prices determined by supply and demand, rather than those set by the Government, wheat products might become more competitive. This may not be a major consideration in the case of bread because of the relatively small part of the selling price accounted for by the cost of the wheat.

Along with increased demand for wheat in general have come shifts in demand for the different types of wheat. Traditionally, the Japanese have eaten products made mostly from soft wheat, primarily in the form of noodles. Until recent years, a scarcity of fuel restricted home cooking to boiling or steaming. This also favored the use of noodles rather than bread. Japan grew soft wheat and supplemented its production by importing soft wheat mostly from the Pacific Northwest of the United States. With the growing urbanization of Japan and an expanding baking industry, wheat utilization has undergone rather drastic changes. To supply the increasing demand for bread and bakery products, Japanese bakeries have demanded more hard wheat.

This shift has made it more difficult for the United States to hold its share of the Japanese wheat market. In supplying hard wheat, the United States has encountered cost and price difficulties. Hard wheat produced in the United States has to be transported from the central part of the United States to coastal ports, increasing its price. Measures were taken to overcome this difficulty by building up at U. S. West Coast ports stocks of hard wheat that were offered to Japan at prices competitive with Canadian wheat. In 1962, Japan's wheat purchases from the United States increased by 10 percent on a quantity basis over the reduced 1961 level. On the other hand, purchases from Canada declined by 17 percent. Australia, one of the 3 major suppliers of the Japanese market, increased shipments to Japan in 1962 by more than 25 percent. Competition remains intense and is expected to continue. The United States will have to stay competitive to maintain its strong position in the Japanese market.

Rice

Japan in the last decade has virtually attained self-sufficiency in rice production and imports have declined sharply. While there has been some diversification of the diet, and rice no longer holds quite the dominating position as a source of energy, Japan is still a nation of rice eaters. Rice remains by far the most important crop and is the staple food in the diet. It is grown on three-fifths of the farms, accounts for more than 40 percent of all crop production, and is the most important source of farm income. To encourage rice production, the Government has provided highly attractive support prices and the Japanese farmers have responded. As domestic production has mounted, imports have declined. The drop in total imports and the U. S. share of the total is shown in table 17.

In the 1952-55 period, Japan purchased sizable quantities of U. S. rice, primarily short-grain rice produced in California, but also some long-grain from the Gulf States. The U. S. rice market in Japan has been lost almost entirely, with little chance that it will be regained on a continuing basis.

Over the years, the Japanese have acquired a preference for domestically produced short-grain, semi-glutinous varieties of rice. Imported long-grain hard varieties are not as popular. In prewar years, Korea and Taiwan provided much of Japan's imports of the preferred type. Taiwan has remained a substantial supplier, but Korea, until very recently, has been unable to export rice. Spain and Italy have at various times sold short-grain rice to Japan.

For economy reasons and to expand its own exports in Southeast Asia, Japan has purchased long-grain rice from Thailand and Burma.

Under Government programs, rice cultivation has been made attractive and rewarding to Japanese farmers relative to other farming enterprises. Seeded acreage, harvested acreage, and yields per acre have been increasing in recent years. Labor income per day in rice growing has been estimated at 1,000 yen (\$2.78). Only fruit production gives a higher return to labor.

Under the present control and price-support system for staple foods, Japan will probably continue to be virtually self-sufficient in rice because of continuing improvements in technology

and the maintenance of an adequate labor supply made possible through increased mechanization. Should the present support system be abolished or relaxed, rice acreage might decline. Land not especially suitable for rice production might be diverted to other uses. Some observers have suggested that the present programs may put Japan in a rice surplus position, forcing a change in the Government's program, but this does not appear imminent. Imports of rice may continue in order to stimulate trade with countries that need a rice market.

Corn

Corn is a relatively minor crop in Japan. An average of 64,000 metric tons was grown in the 1952-54 period. Production increased to 116,000 metric tons in 1961 before declining to 104,000 in 1962. For 1962, the import dependence rate was more than 95 percent. The planted area is declining gradually because of the inability of corn to compete with higher income crops for Japan's land resources.

The rapid growth in Japan's livestock and poultry population has greatly increased the requirements for feed concentrates. Nearly all the corn consumed is utilized as livestock feed. This growing demand for corn, associated with the expanding feed industry, raised Japan's corn imports from 19,000 metric tons in 1950 to 2,316,000 in 1962 (table 18). Imports have increased dramatically since 1956. U. S. farmers and traders have benefited from this increased demand, with sales to Japan in 1962 doubling the 1961 level and exceeding 1 million metric tons. The United States has been the major supplier in every year except 1954 and 1960, when Argentina held the lead.

However, Japan buys corn on a global basis and many countries compete for a part of the market. The United States, Thailand, Argentina, and the Republic of South Africa are the leading sources of supply. A total of 13 other areas supplied small quantities of corn to Japan in 1962. Among the other suppliers, only Rumania with 33,300 metric tons and Mozambique (Portuguese) with 15,355 shipped more than 10,000 tons. Several smaller lots came from a number of countries in Asia and Africa. Price, quality, and again Japan's desire to buy to promote exports are factors in determining the supply source. U. S. corn has been

Table 18.--Japan: Imports of corn by quantity and country of origin, 1950-62

Year	United States	Thailand	Argentina	Republic of So. Africa	Others	Total
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
1950...	19	0	0	0	0	19
1951...	50	4	0	0	2	56
1952...	47	10	0	0	10	67
1953...	164	13	0	0	10	187
1954...	76	22	82	0	15	195
1955...	199	48	4	48	44	343
1956...	135	44	31	44	91	345
1957...	242	30	14	144	86	516
1958...	348	113	133	12	60	666
1959...	338	109	270	97	99	913
1960...	184	314	428	254	174	1,354
1961...	515	460	286	446	124	1,831
1962...	1,031	237	52	868	128	2,316

Source: (12).

described by some Japanese traders as being pale in color and as having excessive moisture content, but price is probably the leading consideration. Comparative import prices of corn are shown in table 19 for the years 1959-61.

Table 19.--Japan: Comparative prices per metric ton (c.i.f.) for corn imports, 1959-61

Year	United States	Thailand	Republic of South Africa	Argentina
	Dollars	Dollars	Dollars	Dollars
1959 average...	58.92	58.32	58.74	58.74
1960 average...	60.93	59.02	59.78	60.41
1961 average...	57.88	58.46	58.88	64.66

The yearly average price per ton has not differed widely among the various suppliers, although Argentine corn went up significantly in 1961. Japan's purchases from Argentina dropped from 428,000 metric tons in 1960 to 286,000 in 1961.

Unlike rice, wheat, and barley, the price of corn is not supported in Japan. Corn is imported under the Automatic Approval licensing system. Except for wheat bran, most other feedstuffs are still under the fund allocation system. Corn is one of the products least protected from outside competition.

In analyzing the strong current demand for corn and the anticipated growth in demand, it is significant to note changes in the volume of commercial feed produced. In the latest period for which figures are available (April 1961 - March 1962), commercial feed production increased by 42 percent over the same months in the previous year and exceeded 4 million metric tons.

A statistical profile of the products used and the large percentage of corn going into commercial feed manufacturing in Japan is shown in table 20.

During the 12-month period shown, more than three-fourths of the commercial feed consumed was utilized in poultry rations, table 21. Most of the poultry feed is layer feed, with only 5 percent prepared for growing broilers. However, the requirements for broiler feeding are increasing; future increases in poultry feed may be mainly in the broiler industry. Dairy feeds in the 12-month period accounted for about 10 percent of the total, and with increased emphasis on dairy production, the need for dairy feeds will increase. Commercial requirements by hog raisers are increasing rapidly as hog production becomes more specialized. The production of beef cattle feed is still very small but is also growing.

The outlook for livestock and poultry is for continued expansion--the Japanese Government is very interested in expanding production. As mentioned earlier, a price-support and stabilization law for livestock and dairy products has been put into effect. With very limited land resources, the required feedstuffs will be imported. According to recent studies by the

Table 20.--Japan: Feed ingredients for making compounds and formula feeds, July 1961 - June 1962

Product	Quantity	Distribution
	<u>1,000 metric tons</u>	<u>Percent</u>
Corn.....	1,943	44.8
Wheat.....	74	1.7
Barley.....	10	0.2
Other cereal <u>1/</u>	262	6.0
Wheat bran.....	464	10.7
Barley bran.....	21	0.5
Rice bran and the oilmeal.....	217	5.0
Soybean bran.....	195	4.5
Soybean meal.....	251	5.8
Palm oilmeal.....	35	0.8
Linseed oilmeal.....	60	1.4
Other vegetable oilmeal..	134	3.1
Fish meal.....	221	5.1
Other animal feed ingredients.....	92	2.1
Others.....	<u>362</u>	<u>8.3</u>
Total.....	4,341	100.0

1/ Mostly imported milo supplied by the United States.

Table 21.--Japan: Commercial feed consumption in Japan according to end usage, July 1961 - June 1962

Consumption by livestock	Quantity	Percentage
	<u>1,000 metric tons</u>	<u>Percent</u>
Dairy cattle.....	416	9.7
Chickens.....	3,274	76.1
Hogs.....	505	11.7
Others, including beef cattle...	<u>106</u>	<u>2.5</u>
Total.....	4,301	100.0

Japanese Ministry of Agriculture, feed requirements are expected to double by 1971 as compared to 1960.

Assuming that the livestock and poultry industry expands as planned, the demand for concentrates used in livestock feed is expected to reach 6 million metric tons by 1971. Imports of corn are expected to increase. As long as U. S. corn is competitive in price, the United States should remain the dominant supplier. However, as pointed out elsewhere, corn is a product Japan may decide to purchase from other areas, partly on the assumption that buying corn will promote sales of Japanese manufactured items.

Tallow

Only a small percentage of Japan's growing demand for tallow is met by domestic production. Imports have increased rapidly since 1950 (table 22). Heavy imports are necessary to meet expanding needs. From only 13,000 metric tons in 1950, imports reached a record high of 161,000 tons in 1961, but declined in 1962. In 1961, the United States supplied more than 91 percent of total imports. This percentage was up from 82 percent in 1959. The U. S. share of the market in 1962 was reduced to 80 percent.

Japanese imports of tallow and grease were liberalized in 1960 by the removal of foreign exchange restrictions. The effects on purchases have not been apparent, however.

Before World War II, marine oils were used in soapmaking, but they are now used as edible oil. The Japanese learned in the early 1950's that U. S. tallow is both the best suited and the most economical for the soapmaking industry. However, the demand for tallow in soap is a derived demand, depending mainly on the growth, stability, or decline in the manufacture and sale of tallow-based soap. Much of the tallow consumed by the soap industry has gone into making laundry soap with lesser amounts used in manufacturing toilet soap and powdered soap. Laundry soap has benefited greatly in the recent past by the rapidly expanding production and sale of electric washing machines (table 23).

The production of electric washers has been increasing rapidly and the demand has been strong. With growing prosperity,

Table 22.--Japan: Imports of tallow by quantity and country of origin, 1950-62

Year	United States	Canada	Australia	New Zealand	Others	Total
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
1950...	13	0	0	0	0	13
1951...	30	1	0	1	0	32
1952...	64	1	1/	1/	0	65
1953...	95	2	2	1	0	100
1954...	92	2	1	1	0	96
1955...	98	1	3	1	14	117
1956...	95	2	5	3	1	106
1957...	101	5	12	6	1/	124
1958...	95	5	8	6	1	115
1959...	114	3	18	4	0	139
1960...	144	3	7	4	0	158
1961...	147	3	5	6	0	161
1962...	107	9	14	4	0	134

1/ Less than 500 tons.

Source: (12).

Table 23.--Japan: Production and delivery of electric washing machines, 1951-61

Year	Production	Delivery
	Number	Number
1951.....	3,328	---
1952.....	15,117	14,548
1953.....	104,079	92,764
1954.....	265,552	248,175
1955.....	461,267	445,459
1956.....	754,458	726,974
1957.....	854,464	891,682
1958.....	998,309	981,640
1959.....	1,189,034	1,147,351
1960.....	1,528,997	1,521,498
1961.....	2,161,000	1/

1/ Not available.

Source: (6, 15).

more and more Japanese families can afford to own electric washers. The introduction of synthetic detergents has created serious competition for soap (table 24). Soap production has declined since 1959 and the production of detergents has increased. Detergents appear to be making some inroads into the soap manufacturing industry, particularly laundry soaps; how serious these will become is not clear. The Japanese soapmakers are reportedly taking measures to improve the quality of soap and the manufacturing processes.

Table 24.--Japan: Production of soap and synthetic detergents, 1951-60

Year	Soap	Synthetic detergents	
		Mineral oil base	Alcohol base
	Metric tons	Metric tons	Metric tons
1951.....	147,826	1,972	3,059
1952.....	150,243	3,084	4,464
1953.....	191,878	3,525	7,317
1954.....	237,276	3,110	9,121
1955.....	279,177	4,082	11,386
1956.....	296,622	7,738	14,709
1957.....	319,731	8,686	15,902
1958.....	346,533	12,810	17,829
1959.....	380,205	25,293	22,970
1960.....	347,404	52,995	33,169
1961.....	<u>1/</u> 298,741	n.a.	n.a.

1/ Data from Institute for Agricultural Economic Research, University of Tokyo.

Source: (15).

Even if tallow-based soap suffers further losses to detergents, other uses may be found to more than offset the decline. There is potential for an increase in the use of tallow for toilet soap. Another promising area of expansion is in the use of fats in feed mixtures needed to supply Japan's growing livestock and poultry industries. This practice has so far found widest use in the United States, but it also has promising prospects abroad.

Surveys in Japan indicate the potential demand for tallow in feed could double or triple present imports for all purposes if used at U. S. levels of consumption.

The comparative costs of corn and tallow must be considered. Since 1 pound of fat contains the energy value of approximately 2.5 pounds of corn, it would appear that the cost of fat should not exceed 2.5 times the cost of the corn. However, there are other factors that need to be considered; American feed manufacturers have found that use of tallow in feed is not altogether tied to the cost ratio between tallow (or other fat) and corn. There are several advantages of fat that permit its use even though its cost exceeds 2 1/2 times the cost of grain. For one, fat in pellet mixtures acts as a lubricant and extends the life of pelleting machinery. Then too, there is a matter of dust; fats tend to keep it down and in the process cut out a certain amount of loss. Another point is that 90 to 95 percent of fat is absorbed and digested by animals, compared with only about 80 percent of corn (4).

Hides and Skins

Production of hides and skins for tanning purposes is trending upward, paralleling the expansion in domestic livestock slaughter (table 25). The careful handling of cattle in Japan produces a hide that is of high quality. Also, the curing and processing of hides and skins is improving. However, domestic production in 1962 supplied only an estimated 19 percent of total requirements for hides and skins; the remainder was imported. As already indicated, Japan is pushing the development of a livestock industry but, except for hogs, the numbers slaughtered have not increased very fast.

Japan had a tanning industry made up of 815 tanneries in 1957. Seventy percent had less than 10 employees. With relatively low labor costs and an industry capable of meeting domestic demand for tanned leather, Japan elects to import hides and skins rather than the more expensive processed leather.

Because of limited domestic production and a vigorous growth in demand, both total imports and imports of U. S. hides and skins have trended up since 1950 (table 26). This, of course, reflects the steady growth of the tanning and leather industries.

Table 25.--Japan: Number of livestock slaughtered, 1950-62

Year	Mature Cattle	Calves	Horses	Swine	Sheep	Goats
	1,000 head	1,000 head	1,000 head	1,000 head	1,000 head	1,000 head
1950...	428	41	80	1,132	2	2
1951...	378	39	101	922	4	26
1952...	375	42	87	1,526	9	31
1953...	412	53	124	1,843	18	34
1954...	436	80	140	1,433	24	44
1955...	602	209	124	1,659	23	42
1956...	681	192	146	2,150	34	53
1957...	571	145	107	2,673	58	96
1958...	608	167	105	3,131	67	97
1959...	697	191	134	3,562	115	120
1960...	668	166	138	2,836	139	139
1961...	655	159	126	3,948	<u>1/</u>	<u>1/</u>
1962...	687	191	141	6,175	<u>1/</u>	<u>1/</u>

1/ Not available.

Source: (11).

The United States remains the major supplier of the Japanese market; it increased its share of the market from 58 percent in 1950 to about 65 percent in 1962.

Australia, Canada, Argentina, and New Zealand are other major suppliers. In 1960-62, shipments from Australia picked up and accounted for an average of about 15 percent of the market.

The United States in 1961 supplied about 47 percent of the Japanese market for calf and kip skins, nearly 95 percent of the goat and kid skins, and almost 78 percent of the important cattle-hide trade (table 27).

Hides and skins in the Japanese industry are encountering strong competition from synthetic leather-like materials. This is especially true for leather used in manufacturing shoe soles, affecting mostly the demand for cattle hides. Nevertheless, the

Table 26.--Japan: Imports of hides and skins by quantity and country of origin, 1950-62

Year	United States	Canada	Argentina	Australia	New Zealand	Others	Total
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
1950.....	21	1/	5	2	1/	8	36
1951.....	12	1/	10	2	1	16	41
1952.....	17	1	1/	4	6	6	34
1953.....	34	2	5	3	4	11	59
1954.....	32	2	2	2	2	7	47
1955.....	45	3	4	2	2	6	62
1956.....	50	4	6	5	2	9	76
1957.....	49	2	3	3	2	12	71
1958.....	51	2	5	10	2	6	76
1959.....	40	1	5	18	4	18	86
1960.....	67	4	4	12	2	8	97
1961.....	96	5	6	20	2	9	138
1962.....	93	4	8	25	3	9	142

1/ Less than 500 tons.

Source: (12).

Table 27.--Japan: Imports of hides and skins by types from the world and from the United States, and the U.S. share of the market, 1961

Types	World	United States	U. S. share
	1,000 metric tons	1,000 metric tons	Percent
Skins:			
Calf and kip.....	9,065	4,254	46.9
Sheep and lamb.....	1,185	1	---
Goat and kid.....	2,701	2,557	94.7
Total.....	12,951	6,812	52.6
Hides:			
Cattle 1/	115,234	89,528	77.7
Buffalo.....	996	0	0.0
Horse.....	7,446	0	0.0
Mule	156	0	0.0
Total.....	123,832	89,528	72.3
Total of above hides and skins ...	136,783	96,340	70.4
Grand Total 2/	138,068	96,362	69.8

1/ Undressed.

2/ Includes skins of alligator, lizards, etc., which are reported in Japanese statistics.

Source: (12).

leather industry continues to expand at a brisk pace. Shoe production, which uses approximately 70 percent of the total supply of tanned cattle hides and calf skins, is reportedly increasing at over 20 percent per year. Production of leather handbags, brief cases, camera cases, and some other miscellaneous leather goods is also increasing.

The potential of the Japanese market for hides and skins is closely tied to the shoe industry. It is significant that western shoe fashions are being increasingly adopted by the Japanese,

especially women. Per capita consumption of leather shoes by the Japanese has been limited in the past. With rising incomes, this situation is expected to change and to bring about a strong demand for leather shoes.

Barley

Barley has long been a major crop in Japan and has been used primarily for human food and to a lesser extent for livestock feed. Before World War II, Japan produced 838,000 metric tons annually of naked barley (a hulless type) and 770,000 tons of common barley (a covered or hulled type). Barley, however, was insignificant in the foreign trade of Japan in the prewar period. Immediately after the end of World War II, a shortage of rice created a strong demand for food barley. Domestic production increased markedly and imports during 1951-55 averaged 775,000 metric tons.

Traditionally, the Japanese have used barley as a rice supplement and extender. Small-grained varieties with white kernels are most desirable for processing into pressed form. Blue kernels are objectionable because they stand out in a mixture of rice and barley. Barley is also used in making soups. From a nutritional standpoint, barley complements rice by providing additional protein, calcium, and essential vitamins to the diet.

Japanese consumers, however, eat barley more for economic reasons. It is a familiar food and a relatively cheap source of energy. However, barley is regarded by Japanese consumers as inferior to rice. Recent developments have shown that the demand for barley drops sharply when consumers have a choice and can afford more expensive foods. Thus, with indigenous supplies of rice becoming adequate and with rising incomes, Japanese consumers have turned from barley and toward greater consumption of other grains. Recently, a further step in upgrading the diet has become noticeable with increasing consumption of fruits, vegetables, dairy products, and red meats. Grains of all types are tending to decline in the diet. These changes are basic evidence of Japan's rapidly improving standard of living.

Domestic production of barley dropped from a 1952-54 average of 2,277,000 metric tons to only 1,717,000 in 1962.

Planted acreage declined despite Government support prices. Land taken out of barley has been mostly diverted to more economical crops such as wheat and rapeseed. The Government is aware of the shift in demand from barley, but it continues to support barley prices and keep out less expensive barley that might be imported for livestock feed.

For countries exporting barley to Japan, including the United States, the decline in demand has meant a loss (table 28). Barley imports by Japan flourished in the early 1950's before starting a sharp decline. During this period, the United States, Canada, and Australia were the leading suppliers.

Table 28.--Japan: Imports of barley by quantity and country of origin, 1950-62

Year	United States	Iraq	Canada	Australia	Others	Total
	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons	1,000 metric tons
1950..	99	70	12	26	73	280
1951..	620	47	124	76	14	881
1952..	314	83	475	70	4	946
1953..	211	3	274	211	7	706
1954..	205	0	333	217	9	764
1955..	326	0	104	146	0	576
1956..	399	0	221	301	1	922
1957..	201	0	272	380	0	853
1958..	429	2	147	138	0	716
1959..	138	3	115	232	0	488
1960..	0	0	0	0	<u>1/</u>	<u>1/</u>
1961..	0	0	0	0	0	0
1962..	0	0	0	0	0	0

1/ Less than 500 metric tons.

Source: (12).

Japan did not import barley in 1960-62. Because the Japanese consumer prefers the domestic type for food, it is not surprising that the imported barley would likely be first to feel the brunt of any decline in demand. This is more fully assured by the Government's policy of promoting self-sufficiency and

protecting domestic producers from outside competition. The Japanese Government pays higher prices for domestic barley than imports would cost.

The Government Food Agency is the exclusive importer. The Government also buys barley through assigned collectors and sells at officially fixed prices. In recent years, an accumulation of high-priced barley has created marketing problems for the Government. Barley has been sold at reduced prices leading to some reduction in stocks. With barley under the Fund Allocation System, it has been easy for the Government to keep out cheaper barley that would intensify the surplus problem.

Whether barley would again find a market in Japan if permitted to enter at world prices has not been tested. Japan has a booming livestock feed manufacturing industry in which feed grains may within limits be substituted one for another to take advantage of changing prices. In this respect, one encouraging sign is that the purchase plan for feed ingredients for fiscal year 1963 (April 1, 1963 - March 31, 1964) provides for importing 100,000 metric tons of feed barley. There is also a prospective demand for two-row common barley for use in brewing beer.

Tobacco

Japan is an important tobacco importing country, although on a quantity basis, domestic production now puts the country near self-sufficiency. In the late 1950's, domestic leaf reached a surplus position. Japan's leaf exports have increased rapidly since 1957. About half of the country's burley crop is exported. West Germany is the leading market for Japanese burley. Exports, however, bring a much lower price than Japan pays for high-quality leaf imports, primarily flue-cured tobacco brought in for blending purposes and used in manufacturing high quality cigarettes.

The Japan Monopoly Corporation controls the cultivation, importation, manufacture, and distribution of tobacco and tobacco products. The Monopoly's purpose is to earn revenue for the national treasury. This is an important source of income, accounting for 7.6 percent of Government revenue from all sources in fiscal year 1961. The Monopoly Corporation favors the importing of tobacco for blending. When high-quality cigarettes sell at profitable prices, Monopoly profits increase.

Cigarette consumption is increasing rapidly in Japan. This is attributed in part to the growing number of people working in industries. Increased purchasing power of consumers helps expand the sales of high quality cigarettes. Those that contain a blend are selling more rapidly than cigarettes made entirely of native domestic leaf. This suggests that smokers are becoming more selective, and that U. S. leaf is popular, which, of course, is favorable to U. S. sales potentials.

The volume of Japanese imports has varied considerably over the postwar years. Imports were up sharply in 1961 and again in 1962, when they reached a high for the period (table 29).

The United States has been the leading source of supply. India has at times provided Japan with tobacco, but more recently, other countries including the Federation of Rhodesia-Nyasaland, Turkey, and Greece have become suppliers. These other sources increased their sales sharply in 1961-62.

At present, the Monopoly is striving to expand domestic production. The outturn in 1962 was 10 percent greater than in the previous year. Total requirements for leaf continue to increase by about 10 percent annually and most of the demand is for cigarette manufacturing. Tobacco farmers near urban centers are converting their land to more profitable uses. Tobacco cultivation in other areas may not compensate for this loss.

Exports of Selected Farm Products by Country of Destination

From 1868, the beginning of Japan's emergence as a modern industrialized country, to the present, the agricultural and industrial sectors of the economy have developed and expanded simultaneously, although not at the same rate of growth. Initially, agricultural exports of such items as silk and tea played a strong role in enabling Japan to purchase the necessary machine tools and equipment required for building a modern industrial complex. Agricultural production increased, however, at a slower pace. But agriculture improved sufficiently to enable the farm sector to nourish the growth of an expanding industry by supplying manpower, food for urban workers, farm products for export, and limited quantities of raw materials for use in domestic industry.

Table 29.--Japan: Imports of tobacco by quantity and country of origin, 1950-62

Year	United States	India	Rhodesia- Nyasaland	Greece	Turkey	Others	Total
	Metric tons	Metric tons	Metric tons	Metric tons	Metric tons	Metric tons	Metric tons
1950.....	1/	1,086	0	0	0	2	1,088
1951.....	1,989	1,281	0	0	0	0	3,270
1952.....	3,600	6,603	0	0	1/	1	10,204
1953.....	2,658	4,224	0	0	0	6	6,888
1954.....	3,817	3,205	0	0	0	2/ 225	7,247
1955.....	5,921	2,640	0	100	210	3/ 1,602	10,473
1956.....	4,173	1,351	0	72	85	23	5,704
1957.....	1,759	0	0	214	274	3	2,250
1958.....	2,530	0	0	102	0	53	2,685
1959.....	5,502	0	0	0	184	1	5,687
1960.....	5,757	293	172	243	312	26	6,803
1961.....	7,869	0	1,801	600	720	12	11,002
1962.....	11,595	738	3,104	943	1,007	122	17,509

1/ Negligible.

2/ Includes 222 metric tons from Indonesia.

3/ Includes 1,514 metric tons from Indonesia.

Source: (12).

In more recent years, the expanded industrial sector has greatly increased its assistance to agriculture, making available the necessary equipment, fertilizers, pesticides, and other requisites required for operating a modern, highly productive agriculture. Because of the labor-intensive nature of Japan's farming methods, unit costs of production remain high. Efforts are underway to further mechanize farming using machinery made in Japan.

Farm sales abroad from Japan are relatively insignificant, as a percentage of total exports, amounting to less than 5 percent. Also, the value of agricultural exports has not increased much in the last 10 years (table 30). This can be expected in countries with large deficiencies in farm production. Principal export products are relatively high-priced items that bring in needed foreign exchange and are considered to be worth more if sold than if kept for domestic consumption.

Japan's agricultural exports do not offer any major competition to U. S. products. Silk, oranges, and seasonings accounted for a large part of total farm exports in 1962. In addition to these commodities, Japan exports some limited quantities of such items as leaf tobacco, wheat flour, fruit, fresh meat, eggs, soybean oil, tea, and dried mushrooms. Except for tea, exports of these commodities have increased in recent years. Exports of leaf tobacco have gone up rather sharply and may offer some competition to the United States. Of the several other farm items exported, except for red pepper, none of them individually amounted to as much as \$2 million in recent years.

The United States is Japan's leading market for the country's principal agricultural export--raw silk. For the past several years, about half or more of this commodity has been purchased by U. S. buyers (table 31). Other leading markets for Japanese raw silk include Switzerland, France, Italy, and India.

Despite the fact that imports of Japanese fresh oranges to the United States are restricted because of the disease problems in Japan, the United States is still the second best market for Japanese mandarin oranges (table 32). The United Kingdom ranks first. The Japanese are striving to eradicate citrus canker and develop a chemical to kill any disease organisms that might be present in the oranges.

Table 30.—Japan: Principal agricultural exports, 1950-62

Commodity	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
							Million dollars						
Silk, raw.....	39.1	41.4	43.6	42.8	46.9	50.0	41.9	42.1	22.5	45.7	50.5	46.3	53.8
Mandarin oranges...	1.0	2.6	3.4	3.0	8.8	16.4	17.1	18.2	18.4	20.2	25.2	27.4	26.3
Seasoning 1/.....	3.0	4.6	7.2	9.9	10.0	9.6	9.6	9.7	8.1	10.5	11.9	13.6	14.4
Soybean oil.....	0.0	0.6	0.0	1.4	2.5	2.2	2.4	6.8	4.8	6.4	5.4	8.0	2.5
Tea.....	5.0	6.0	7.0	8.8	13.6	9.7	5.7	6.0	4.6	4.4	5.6	4.7	5.3
Mushrooms, dried...	2.1	3.1	3.2	3.2	2.0	2.2	2.3	2.6	3.3	3.1	4.5	5.1	5.0
Tobacco (umanuf.)...	0.3	0.4	0.8	0.5	0.5	0.8	0.4	2.7	3.1	4.4	4.7	5.5	6.9
Beer.....	0.5	0.6	3.2	3.4	2.2	1.6	1.4	1.5	1.7	1.8	1.5	1.8	1.3
Potatoes.....	0.4	1.3	1.4	1.6	1.3	1.3	1.4	1.2	1.4	1.5	1.2	1.8	1.2
Red pepper.....	0.3	0.5	0.2	0.3	0.3	0.4	0.6	1.6	1.2	1.3	1.4	1.8	2.1
Sugar, refined.....	2/	2/	2/	0.2	2.9	3.4	1.4	0.8	1.1	1.9	2.5	1.5	0.6
Ginseng.....	0.3	0.2	0.4	0.3	0.5	0.3	0.3	0.6	0.9	0.7	1.1	1.2	0.9
Bulbs, etc.....	0.2	0.3	0.3	0.3	0.5	0.6	0.7	0.7	0.9	1.0	1.1	1.2	1.4
Eggs.....	2/	0.1	0.4	0.6	0.8	1.0	1.1	1.1	0.8	3.2	3.6	3.8	2.8
Wheat flour 3/.....	1.4	1.0	11.1	15.1	2.9	1.5	1.3	0.7	1.2	1.1	2.0	3.3	5.4
Canned fruit 4/.....	2/	0.1	0.1	0.1	0.2	0.2	0.7	1.0	1.8	2.6	2.6	2.9	3.4
Fresh meat.....	0.2	2/	0.2	0.2	0.1	0.1	1.6	1.1	1.4	2.1	2.0	1.8	2.6
Live cattle 5/.....	—	0.1	2/	2/	0.2	0.2	0.4	0.4	0.2	0.3	0.3	0.2	0.2
Total.....	53.8	62.4	82.4	91.7	96.2	101.5	90.3	98.8	77.4	112.2	127.1	131.9	136.1

1/ Mostly monosodium glutamate.

2/ Less than \$50,000.

3/ Including meslin.

4/ Excluding canned mandarin oranges.

5/ Including buffalo.

Source: (12).

Table 32.--Japan: Total exports of mandarin oranges by country of destination, 1950-62

Year	United Kingdom	United States <u>1/</u>	West Germany	Others	Total
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars
1950.....	2	208	3	768	981
1951.....	825	410	37	1,312	2,584
1952.....	1,175	565	34	1,596	3,370
1953.....	0	969	79	1,936	2,984
1954.....	5,791	423	100	2,461	8,775
1955.....	12,043	1,701	176	2,525	16,445
1956.....	10,394	2,246	1,095	3,317	17,052
1957.....	10,689	2,496	1,204	3,769	18,158
1958.....	10,684	2,704	981	4,020	18,389
1959.....	9,926	4,417	1,271	4,597	20,211
1960.....	11,217	6,183	2,108	5,721	25,229
1961.....	10,867	8,154	2,250	6,103	27,374
1962.....	9,504	8,648	2,769	5,428	26,349

1/ Shipments consisted of canned oranges.
Source: (12).

Progress has been made, but the United States must protect its highly developed citrus industry from potentially dangerous diseases. The Japanese are anxious to have the U. S. import restrictions lifted.

TRADE WITH THE UNITED STATES

Total Trade All Commodities

Since the end of World War II, the United States has been Japan's leading market and principal source of supply (table 8). Japan is second only to Canada as a market for U. S. products. A vigorously advancing economy and a growing volume of exports have enabled Japan to continue purchasing heavily from the United States and others to fill domestic needs for food, industrial raw materials, machinery, and other items.

In many respects, trade between the United States and Japan is a natural development because the economies of the two

countries are largely complementary. As previously mentioned, Japan is an industrial country with little land, scarce natural resources, and many people. It must import food, raw materials, fuels, and technology. The United States is both agricultural and industrial, capable of supplying things Japan needs and able to make timely deliveries in adequate quantities, of high quality, and at competitive prices. The United States needs cash markets and Japan is a leading one.

Imports from Japan also add to the U. S. standard of living. For some items, Japan has a comparative advantage. Japanese industries have proven that they can turn out high-quality products at prices which make them popular in the United States. The above factors favor trade, but the growth and level achieved have not taken place by accident; they have been nurtured by business groups and the governments of both countries. When problems have arisen, they have been worked out, as far as possible, to the satisfaction of all parties concerned.

As an ally and trading partner, the United States gave Japan direct financial assistance in the early postwar period, and now recognizes Japan's need for access to U. S. markets in earning foreign exchange. U. S. technology and capital have also been made available to Japan, enabling the Japanese to overcome much of the technological lag caused by World War II. In a broader sense, the policy is intended to help the Japanese live and prosper in a peaceful atmosphere.

In this spirit, the United States has not invoked Article XXXV against Japanese goods. But the United States has felt it necessary to enter into voluntary agreements with Japan in which the Japanese agree to regulate shipments to the United States so as not to disrupt the U. S. market too severely. The regulation of cotton textile imports is a case in point. This is a troublesome and complex issue, involving not only several groups in the United States and Japan, but also other countries. It is also a problem that cannot be quickly, if ever, resolved to the complete satisfaction of all parties concerned.

A problem in Japan-U. S. trade, sometimes mentioned by the Japanese as needing remedial measures, concerns Japan's apparent unfavorable trade balance with the United States. This

imbalance is more apparent than real, however, when all factors are considered. In the merchandise account, Japanese trade statistics value imports at landed value (c.i.f.) and exports on an f.o.b. basis. Consequently, Japan appears to have for most years a sizable trade deficit with the United States. This deficit is not so large, however, on an actual exchange payment basis. Besides, the trade deficit has been offset by expenditures by U. S. forces in Japan. Moreover, even if the deficit were not offset, it is not as a matter of policy necessary that a country balance its trade in a bilateral sense, but in total, all countries considered. Japan has had difficulties in doing this only in some years. The basis for the difficulty, as pointed out previously, is traceable in large part to heavy buying by the optimistic Japanese business groups in order to renovate and modernize Japanese industry. Japan has not had a dollar scarcity for several years and has had ample sources of credit when loans have become necessary in times of stress.

Prospects are excellent for keeping conditions favorable and trade expanding. In 1962, Japan's exports to the United States went up \$327 million, an increase of more than 30 percent over 1961. On the other hand, imports from the United States dropped \$288 million, a decrease of about 14 percent. This development aided Japan materially in correcting an unfavorable balance-of-payments situation. With the balance-of-payments situation again in hand, U. S. exports to Japan are expected to increase. If the U. S. economy continues to expand as expected, the U. S. market should be able to absorb larger quantities of Japanese exports without any great difficulties. The growing two-way trade will benefit both countries.

Agricultural Trade

Trade in farm products between the United States and Japan has flourished since the end of World War II. Many groups and individuals, concerned with promoting trade between the two countries, have worked jointly and diligently to keep trade strong and expanding. Both governments have encouraged and assisted these efforts.

Advertising and sales promotion and educational efforts have been brought into use. During the past 7 years, an organized,

concerted effort has been made to increase the demand for U. S. farm products in many foreign markets. Japan is a big cash market and for that reason is the leading country in terms of U. S. market promotion activities. These activities stress promotion, marketing assistance, marketing research, and surveys.

The benefits from such promotional activities can not be measured in terms of resulting increments in quantities or values of products sold to Japan. There are too many other factors involved. There is a consensus, however, among Japanese and U. S. participants and among observers, that the programs are making significant contributions in promoting understanding, establishing contacts, and familiarizing the Japanese traders and consumers with U. S. products (7). These programs undoubtedly aid in creating a climate favorable to increased sales. There is still, however, much to be learned about selling in Japan and much to be done in advertising and sales promotion work. In terms of cost, the promotional work has not resulted in large expenditures.

It must be conceded that taste preferences for many farm products can not be established sufficiently so that commodities grown in one foreign country are markedly preferred over the products of another. Consequently, even if market demand in Japan increases for a product such as wheat, it does not follow that the wheat will necessarily be purchased from the United States. Japanese buyers have demonstrated that they make decisions on the basis of hard bargaining, taking into account relative prices at the Japanese point of entry, quality, availability, and stability of the supplier. Other things being somewhere near equal, port-of-entry price is the big factor. The United States has generally done well in these respects but has been hard pressed on some major items such as cotton. Japanese buyers have turned to other sources when the same or similar products could be purchased for less money. Nevertheless, the record of U. S. farm sales to Japan since 1950 is impressive.

U. S. Farm Exports to Japan

In 1950-62, the United States sold to Japan slightly more than \$5,430 million worth of farm products, for an average of about \$418 million annually. On this basis, Japan can be described as the U. S. farmer's best foreign market. The United Kingdom

ranks as a close second for the period with an average of around \$399 million annually. On a year-to-year basis, there have been some shifts in position, but with either Japan or the United Kingdom leading in every year except 1950 and 1962.

Recently, Canada has moved up to challenge both Japan and the United Kingdom. Canada led in 1962. However, exports to Canada include intransit commodities placed in bonded storage in Canada and used to "top off" ships moving through the St. Lawrence Seaway. These would need to be deducted to make exports to Canada comparable. During 1950-62, Japan ranked first 5 years, second 7 years, and third only once (table 33). Sales to Japan in 1961 reached a high of more than \$550 million, exceeding \$500 million for the first time. Japan was the largest foreign buyer in 1962 of U. S. cotton, soybeans, hides and skins, tallow, and raisins (18).

U. S. farm exports to Japan discussed above are in terms of U. S. exports (f.o.b.) and refer to products leaving U. S. ports. Japanese import statistics (c.i.f.) are shown in table 34. These data reflect imports arriving in Japanese ports from the United States. The two series are, therefore, not comparable, primarily because of the transportation costs and differences in arrival and departure times. Japanese imports, as would be expected, are larger.

A closer look at the makeup of major U. S. farm exports to Japan during 1950-62 show some significant changes (table 35). Rice and barley were important in earlier years, but have now dropped out of the picture for reasons summarized briefly in other parts of this report. This decline has dropped what used to be referred to as the "Big 9" to the "Big 7". Cotton and soybeans are the two largest exports to Japan and accounted for more than 50 percent of Japan's farm imports from the United States in 1962. Additional farm products that have shown special promise of increasing sales in the Japanese market include nonfat dry milk, raisins, milo, and safflower seeds. Milo and safflower seeds tend to be competitive with corn and soybeans, respectively, depending on prices.

The Japanese are inclined to buy from the United States, but not strongly enough to pass up any significant cost savings.

Table 33.--Japan: Ranking of foreign markets according to value of agricultural imports from the United States, 1950-62 1/

Year	First place		Second place		Third place	
	Country	Value	Country	Value	Country	Value
		Million dollars				Million dollars
1950.....	W. Germany	358.0	Japan	349.0	U. K.	265.0
1951.....	U. K.	501.0	Japan	420.0	W. Germany	366.0
1952.....	Japan	428.7	W. Germany	279.3	U. K.	273.9
1953.....	Japan	367.2	U. K.	295.9	Canada	246.3
1954.....	Japan	417.7	U. K.	362.7	Canada	298.5
1955.....	Japan	386.1	U. K.	376.9	Canada	282.3
1956.....	U. K.	421.9	Japan	391.5	W. Germany	365.6
1957.....	U. K.	500.7	Japan	454.1	Canada	355.0
1958.....	U. K.	409.3	Japan	361.1	Canada	344.0
1959.....	U. K.	425.4	Canada	384.6	Japan	334.1
1960.....	U. K.	510.0	Japan	485.0	Canada	2/ 432.0
1961.....	Japan	554.0	Canada	2/ 491.0	U. K.	431.0
1962.....	Canada	2/ 512.0	Japan	481.0	U. K.	408.0

1/ Figures used are in terms of U. S. exports to the countries shown.

2/ Includes intrasit commodities placed in bonded storage in Canada and used to "top off" ships moving through the St. Lawrence Seaway: Estimated at \$30 million in 1960, \$70 million in 1961, and \$87 million in 1962.

Source: (2).

During the occupation and in the postwar years, the Japanese had an opportunity to become familiar with and acquire a taste for some U. S. farm products such as tobacco or cigarettes made from American leaf. This was something of a windfall for U. S. tobacco interests, but as mentioned earlier, most farm products do not easily become differentiated so that consumers develop a taste for those grown in any particular country.

Japanese Farm Exports to the United States

Raw silk and mandarin oranges are the main farm products shipped from Japan to the United States. Exports of oranges to the United States have shown the most marked increase since 1950, going from about \$200,000 in 1950 to \$8.6 million in 1962. If the disease problem mentioned previously can be eliminated, allowing fresh oranges to enter the United States, the sale of oranges should increase in future years.

Some of the other farm items sold to the United States, but in small quantities, are tea, mushrooms, red pepper, and bulbs. Each of these imports amount to less than \$1 million annually.

OUTLOOK

The outlook for the sale of farm products to Japan over the next 10 to 12 years is generally considered excellent. Indications are that the Japanese economy will remain strong and prosperous, though the unusually high rate of growth in the last decade is not anticipated. Population will continue to increase, and per capita incomes will rise as growing prosperity increases consumer purchasing power.

To get a detailed study and appraisal of the potential of the Japanese market in future years, the U. S. Department of Agriculture has contracted with the Institute for Agricultural Economic Research, University of Tokyo, to make a long-term projection of demand, supply, and imports of selected agricultural products in Japan for 1965, 1970, and 1975. The products selected for study are, of course, those of which U. S. farmers are major suppliers.

The study will be completed and published in 1964, giving the methodology used and the qualifications of the projections.

Meanwhile. for the information and use of the reader, the preliminary and tentative results are shown in table 36, as a corollary to this study of recent trade trends and developments.

Table 36.--Japan: Imports of selected farm products in 1960. and projections for 1965, 1970. and 1975 1/

Commodity	Actual 1960	Projections 1965	Projections 1970	Projections 1975
	Mil. <u>dol.</u>	Mil. <u>dol.</u>	Mil. <u>dol.</u>	Mil. <u>dol.</u>
Wheat.....	176.9	170.0	191.0	217.0
Rice	19.6	---	---	---
Corn and other feed grains.....	138.1	223.0	383.0	595.0
Cotton.....	<u>2/</u> 431.4	390.0	429.0	466.0
Tobacco.....	13.6	41.0	81.0	109.0
Oilseeds	184.0	321.0	482.0	658.0
Tallow.....	25.4	27.0	25.0	24.0
Hides and skins.....	41.3	103.0	205.0	318.0

1/ Values are expressed in 1960 prices.

2/ This figure apparently includes cotton products other than raw cotton and cotton linters.

Note: Projections are by the Institute for Agricultural Economic Research, Tokyo University. They do not necessarily reflect the views of the U. S. Department of Agriculture. The estimates are tentative and may be changed when their final report is published.

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